FINANCIAL TIMES

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● The sixth part of our 12-part series, FT Mastering Finance, appears today. Topics include behavioural finance, short-termism and portfolio theory plus the answer to our competition.

Mannesman plans combined home and mobile phone

German industrial group Mannesmann is drawing up plans to offer Europe's first mass-market digital telephone service that combines mobile and fixed networks. The new service, expected to be available in Germany next year, would allow customers to use a single phone as a cordless telephone at home and a mobile elsewhere. The plan from Mannesmann, which expects to invest DM3bn-DM4bn ($1.7bn-$2.3bn) in telecommunications in the next five years, highlights the rapid pace of change in the German telecoms market. Page 19

Computer plan for TV: Senior executives from three large US computer groups launched a campaign to persuade the European TV industry it needs PC technology for its future development. The DTV group brings together Intel, Compaq Computer and Microsoft, which believe PC technology can ultimately deliver better quality television pictures. Page 19

Hostages 'shot dead': Four westerners kidnapped in Kashmir two years ago were shot dead in early 1996 and buried in a cave, captured guerrilla Nazir Ahmad Najar has told the Indian authorities. German Dirk Hasert was seized along with American Donald Hutchings and Britons Paul Wells and Keith Mangan.

Schumacher wins Canadian grand prix

Michael Schumacher of Germany, left, won the Canadian Grand Prix in a Ferrari after an accident caused the race to be halted after 56 laps when Frenchman Olivier Panis slammed into a tyre wall. Jean Alesi of France in a Benetton was second and Italian Giancarlo Fisichella in a Jordan was third.

Writing on the wall for graphology: A decision by one of France's largest companies to ban handwriting analysis as an aid to recruitment has shaken the nation's graphologists. Building materials group Saint-Gobain has dropped graphology, although the technique is widely used in France. Page 18; Management, Page 10; Business Education, Page 11

Portuguese power sale: Shares in Electricidade de Portugal are forecast to make exceptional gains when the national power utility begins trading today. The initial public offering, Portugal's biggest so far, is widely thought to have been priced too low at Es2,250 a share. Page 19; World stocks, Page 33

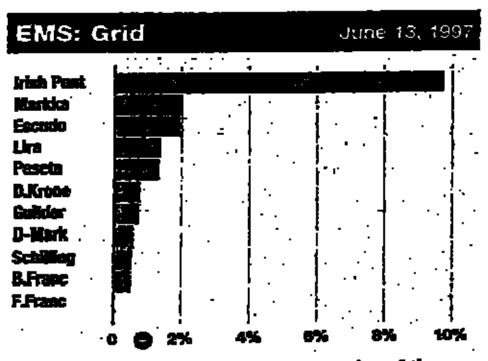
Merloni sets targets: Merloni Elettrodomestici of Italy, Europe's fourth biggest maker of domestic appliances, has set tough targets for improving profits and shareholder value. New chief executive Francesco Caio wants to increase operating profit from 3.5 per cent of sales last year to 5 per cent. Page 19

Fertiliser price down: ICI Fertilizers of the UK has slashed prices for Nitram, its brand of benchmark ammonium nitrate fertiliser, blaming cheap Russian imports. The price to farmers will drop from about £125 ($203) per tonne to £110 or less. Page 19

Only three more for Nato: An abrupt decision by Washington to support only Poland, Hungary and the Czech Republic for the first wave of Nato expansion has shocked its European allies. Page 2

European monetary system: The Finnish markka continued its move upwards within the EMS grid last week, to become second strongest currency behind the Irish punt. The markka now stands over 2 per cent above its central EMS rate. Currencies, Page 26

EMS: Grid June 13, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Europe's fiscal discipline tested at Amsterdam summit

Germany rules out spending on EU jobs

By Lionel Barber and Robert Peston in Amsterdam

Germany last night warned it would not support any new spending on Europe-wide job creation programmes, stepping up the pressure on France to accept a deal at today's European Union summit in Amsterdam.

Arriving in the Dutch capital yesterday, Mr Theo Waigel, Germany's finance minister, said: "We don't want new authorities. There is no money for that. We already pay enough."

The two-day meeting was originally planned to end in agreement on a new treaty to prepare the EU for the entry of the reformed democracies of eastern Europe. But it has turned into a test of credibility for the planned single currency, the euro.

EU finance ministers last night were seeking to reconcile French demands for extra spending on public works and other job creation schemes with the need to maintain confidence in financial markets about fiscal discipline in the future euro zone.

The commitment to budgetary rigour was enshrined in the German-inspired stability pact which EU leaders, including President Chirac of France, agreed in principle after negotiations six months ago in Dublin.

But last week the new left-wing coalition in Paris shocked its EU partners by demanding more time to study the pact, shaking Bonn's confidence in France's commitment to budgetary rigour and a stable euro.

"The stability pact cannot be undermined or affected in any way," Mr Waigel warned yesterday. "Not a single comma or decimal point can be changed."

Mr Robin Cook, Britain's foreign secretary, made it clear that he too would oppose any proposals to soften the criteria.

"The worry about a euro that got off the ground without being credible would be that a central bank might feel an obligation to restore credibility by being even tougher on monetary policy and interest rates," he said in an interview with the FT. "That in turn would result in even higher levels of deflation, loss of demand, pressure on jobs."

The UK would strongly oppose any proposals for a significant increase in EU spending to create jobs, believing the emphasis should be on a co-ordinated approach to increase market flexibility and "employability".

Mr Jean-Claude Juncker, Luxembourg's prime minister who helped to arrange the Dublin compromise, expressed confidence that agreement would be found today. His views echoed comments by Mr Dominique Strauss-Kahn, France's industry and finance minister, and Mr Yves-Thibault de Silguy, EU monetary affairs commissioner.

Mr de Silguy hinted that the financial markets would exact a heavy price without a deal. "The stakes are too high. It would be very risky if the solution is not found this evening or tomorrow."

The compromise which appeared to be emerging last night would leave the terms of the stability pact intact, while offering the French a warmed-over version of earlier EU commitments to spending on infrastructure; a beefed-up chapter on employment in the new treaty of Amsterdam; and a declaration that EU governments should co-ordinate policies geared to employment and growth.

Cook call on EU goals ......Page 3
Close to boiling point ......Page 17

High stakes: racegoers at Hong Kong's Sha Tin track where more than HK$600m in bets was laid out Picture: Reuter

Hong Kong races towards the handover amid betting frenzy

By John Ridding in Hong Kong

Hong Kong's last race meeting before its return to Chinese sovereignty – and the biggest jackpot in its racing history – sent the territory into a betting frenzy yesterday.

A record crowd of 88,000 punters went to the races at Sha Tin, 20km north of downtown Hong Kong, and tens of thousands crowded into the Happy Valley racecourse in the city's heart to watch on a giant video screen. All had their eyes on the main prize, the "triple trio" bet, which attracted a combined stake of HK$675m ($87m) - four times the previous record.

The punter who picked the first three horses, in any order, in three selected races could have walked off with just under HK$500m after taxes, the Jockey Club commission and a chunk for consolation prizes.

Deng Xiaoping, China's recently-deceased paramount leader and architect of Hong Kong's return, famously promised that horse-racing and dancing would continue after the handover and few at yesterday's meeting felt they were placing their last bets.

But never before had so much money been at stake. And several punters felt the looming handover would bring them luck.

"It feels special today," said Mr Tien, clutching a pack of triple trio cards. He was guarded about his selection.

But he liked the sound of Lucky Lord in the fourth. His friend was frantically filling in boxes on the betting form, in a bid to cover as many as possible of the 48 million permutations.

It was all a far cry from the day in December 1846, when the first recorded race took place at Happy Valley on a track reclaimed from mosquito-infested swamps. David Jardine, in Canton, wrote to his brother in Scotland with the news: "There are great preparations for a race

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Airbus chief hits at McDonnell Douglas

US group accused of throwing away chance of winning contract

By Michael Skapinker in Paris

Mr Jean Pierson, managing director of Airbus Industrie, yesterday accused McDonnell Douglas of throwing away the chance of winning an important US fighter jet project in order to facilitate its planned merger with Boeing.

In a statement distributed at the Paris air show, Mr Pierson said McDonnell Douglas deliberately failed to meet government specifications when bidding for the Joint Strike Fighter project. The US government late last year named Boeing and Lockheed Martin as final bidders for the fighter project. Shortly after that decision, Boeing and McDonnell Douglas announced that they were to merge, creating the world's biggest aerospace and defence company.

McDonnell Douglas was quick to respond. "Mr Pierson is a respected person in the aerospace industry so we assume he means what he says. But he is clearly wrong," it said. Mr Ron Woodard, head of Boeing's commercial aircraft group, said: "It is just total garbage. McDonnell Douglas is a fine and very ethical company."

Mr Pierson said the proposed Boeing-McDonnell Douglas merger was an attempt to "financially throttle" Airbus. Mr Pierson alleged that in the run-up to the merger announcement in December, McDonnell Douglas took steps to ensure that the deal would look more acceptable to US regulators.

As well as "scuttling" its JSF bid, McDonnell Douglas

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Airbus nears compromise on factories,Page 4

NatWest may scale back investment banking plans

By John Gapper in London

National Westminster Bank is carrying out a fundamental review of its NatWest Markets investment banking subsidiary that could lead to a scaling-back of its ambitions, and the departure of Mr Martin Owen, the subsidiary's chief executive.

The move follows the loss of £77m ($125.5m) sustained on mis-pricing of options within NatWest Markets, and growing pressure from institutional shareholders to match returns achieved by other UK commercial banks.

A scaling-back of the ambition for NatWest Markets to become one of the world's leading investment banks would mark one of the first overt retreats from such a strategy among a number of European banks with similar ambitions.

Mr Owen, who has overseen NatWest Markets' expansion, is seen internally as a possible victim of a change of heart. However, his strategy has been backed by both Mr Derek Wanless, NatWest's chief executive, and Lord Alexander, its chairman.

Although NatWest is not thought likely to sell any of its recently acquired businesses, it is considering ways of reallocating capital to retail banking operations. It recently made a merger approach to Abbey National, another UK bank.

If Mr Owen leaves, the bank may look outside for a replacement to run NatWest Markets on a more modest scale. Internal candidates may include Mr Peter Hall, who was recently appointed its president and chief operating officer.

A number of senior directors of NatWest Markets have been taking part in a strategy review and are expected to present recommendations to the NatWest board.

Among the directors most influential in running NatWest Markets are three American investment bankers: Mr Chip Kruger and Mr Gary Holloway, joint heads of its fixed income division, and Mr Tom Whelan, head of equities.

NatWest is expected to announce next week the results of an inquiry by Coopers & Lybrand, the accountancy firm, into the mis-pricing of options. Five managers within NatWest Markets were suspended after the discovery of mis-pricing.

NatWest has faced growing criticism that it wasted money by buying Gartmore, the UK fund management company, Greenwich Capital, a US-based bond trading firm, and two corporate finance boutiques, to expand its investment banking subsidiary.

Although NatWest remains the largest UK bank measured by assets, its market value has been outstripped by banks such as Lloyds TSB which have concentrated on UK retail banking. This has produced more consistent returns than investment banking.

There are also question marks over the future of BZW, the investment banking arm of Barclays. Mr Martin Taylor, Barclays' chief executive, has been under pressure from investors following BZW's disappointing results last year.

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US argues its decision to back only three new entrants serves enlargement best

Washington makes waves in Nato

By Bruce Clark in Washington and Anatol Lieven in Bucharest

An abrupt decision by Washington to support only three candidates – Poland, Hungary and the Czech Republic – for the first wave of Nato expansion has come as a rude shock to European allies, both present and future. But US officials are adamant that their tactic serves the cause of enlargement best.

Romania and Slovenia, the two disappointed candidates, have complained loudly after their hopes of early admission were dashed. "It was like a punch in the jaw," said one journalist in Romania, where the media had carried optimistic reports and a private television station had held a lottery to support lobbying for Romanian entry.

President Jacques Chirac and Chancellor Helmut Kohl both stressed their support for the two frustrated candidates when they met on Friday, though there can be little prospect of Washington, as Nato's most powerful member and paymaster, being overruled.

But US officials are stressing that a small first wave renders more credible their promise that other waves will follow. While Slovenia was a borderline case, its exclusion made it politically easier to say "not yet" to Romania. To have left Bucharest as the only candidate that reached the shortlist and then failed would have been an even harsher blow.

Mr Stephen Larrabee, an influential US security analyst, noted that support for Nato membership was gradually increasing in neutral Austria. A plausible second wave would consist of Slovenia, Austria, Romania and possibly others, he said.

Mrs Madeleine Albright, the US secretary of state, left a recent Nato meeting in Portugal with a feeling that her European allies had no coherent view on who should be asked to join at next month's Nato summit in Madrid. Since no existing ally disagreed with the principle of "at least three" in the first wave, the US reckoned it could declare its hand in favour of that position without fear of unmanageable objections.

Fewer is cheaper, says the US, but others point out further expansion will have a price

Disappointment about Slovenia's rejection has been expressed in Washington by politicians such as Senator William Roth, who chairs the North Atlantic Assembly, the alliance's parliamentary arm. But the US administration, which must manoeuvre carefully to get Nato enlargement ratified next year, believes that cost could be the biggest factor in the minds of legislators less committed to Nato than Senator Roth. "Three is easier to do than five because smaller is cheaper," said one administration official.

A Pentagon report to Congress in February, clearly designed to assure law-makers that the costs would be manageable, suggested that enlargement need only cost \$35bn by the year 2009, with the US paying only \$2bn. But other estimates of the total cost have ranged from the Nato secretariat's \$5bn to the US Congressional Budget Office's \$125bn. The sheer uncertainty has set the stage for some bitter transatlantic tussles over who should bear the main burden.

Rejection, however, is still a bitter pill for Romania's President Emil Constantinescu. He and Mr Victor Ciorbea, the prime minister, have invested enormous energy in the quest for first-round membership, with dozens of diplomatic missions.

A desire to impress the west, including Nato, has been one of the main factors behind Romania's rapprochement with Hungary and this month's treaty with Ukraine. Advocates of Romania's early membership have ranged from ex-King Michael to Patriarch Bartholomew of Constantinople, the senior spiritual figure in the Orthodox Church.

US and other western officials, including Mr Javier Solana, the Nato secretary-general, have been at pains to reassure Bucharest that its economic and military reforms are appreciated – and will earn a place in Nato soon.

But Washington's two lines of argument – that a small first wave is both cheaper and more likely to lead to an early second wave – stand in uneasy contradiction. All the cost estimates made so far have assumed that only three, or at most four, will be admitted. Nobody has yet demonstrated how a larger expansion will be financially and politically manageable in a few years' time.

Hence the suspicion of some ordinary Romanians such as Ms Maria Radu, a political activist in Bucharest: "There will be no second round. We have simply been sold again to the Russians like at Yalta."

Schoolchildren carry a picture of modern Turkey's founder Kemal Atatürk during a celebration to mark Republic Day. Richard Wayman

Politics puts schools in Turkish front line

Turkey's classrooms have become the front line in the ideological battlefield between secularists and Islamists. Each side is fighting for control of the education system because it is shaping the minds of future generations and thus the country's political direction.

The struggle halted plans to extend compulsory education to eight years from five because Mr Necmettin Erbakan's Welfare party and Islamist sympathisers in other parties feared it would cut enrolment in religious secondary schools as many children do not continue their education beyond primary level.

But, in February, the military-dominated National Security Council said eight years' secularist education would be introduced immediately, not in 2000 as previously planned. The council says that most religious schools should close, leaving only enough to train students planning a career as clerics.

The Turkish coalition partners have announced that the prime minister, Mr Necmettin Erbakan, will hand over his post tomorrow to Mrs Tansu Çiller, leader of the secular True Path party, writes Kelly Couturier in Istanbul. Under the deal, which needs approval by parliament and the president, she would lead a caretaker government to early elections this autumn. The move follows a warning from the Turkish military that it will use force if necessary to protect the secular republic.

At present, these state-funded Imam Hatip religious secondary schools take children aged 11 after they complete their basic five-year education. Although their books, syllabus and teachers are controlled by the state, secularists say the Imam Hatip schools have become a hotbed of fundamentalist agitation.

But at one such girls' school in Sincan, a working class suburb of Ankara and suspected fundamentalist stronghold, the pupils seem very much like schoolchildren everywhere, except that they all wear white Moslem headscarves. The syllabus is similar to conventional schools, including English and German lessons, but includes additional Koran courses and Arabic.

Children at conventional state schools also receive obligatory religious instruction as well as unrelenting indoctrination in the teachings of Kemal Atatürk, founder of the modern Turkish state. A maths test, for instance, will ask children how much material Atatürk's mother would need to make a curtain. Children write compositions about Atatürk's life. Every school must have a bust of Atatürk.

Although there are only 600 Imam Hatip schools, with about 500,000 pupils, the army claims that if Islamic education continues growing it will brainwash enough people for Welfare to take a third of the national vote in 2000 and 67 per cent in 2005, allowing the establishment of an Islamic republic. Many secularists say Welfare has already infiltrated the education ministry to reorient conventional schools as well.

Welfare is agonising over the army's demands for education reform. Education affects the party's grassroots more than high politics or foreign affairs. Many of its MPs are graduates of Imam Hatip schools, and nearly all send their children to them.

The party has begun mobilising the faithful. In mid-May, hundreds of thousands attended a rally in Istanbul against eight-year education, chanting "Imam Hatips cannot be closed down", and "Turkey will remain Moslem".

Politicisation hurts the education system and slows the country's development. Turkey lags far behind European countries, where children normally spend 10 to 12 years at school. According to a 1990 survey, 18 per cent of the labour force was illiterate or literate without formal education. A third of women were illiterate.

Poor education limits social mobility because the wealthy can send their children to private schools, many of which teach in English, not Turkish. Classrooms in state schools are overcrowded, hours are short and schools are falling into disrepair. Parents must make donations to buy basic supplies such as chalk for blackboards.

Yet Türkey spends more on defence than on education. This year's budget allocates \$6.26bn, nearly 11 per cent of government spending, to defence and security but only \$4.76bn to education.

John Barham

EUROPEAN NEWS DIGEST

Croatia goes to the polls

Croatians voted yesterday in a presidential election that was widely expected to give another five-year term to Mr Franjo Tudjman, after a campaign denounced by his two opposition candidates as undemocratic. Mr Tudjman, a 75-year-old former Communist general who led Croatia to independence from Yugoslavia in 1991, looked well when he cast his vote despite persistent reports that he is being treated for stomach cancer following a stay in a US military hospital last year.

His two opponents, Mr Zdravko Tomac of the Social Democrats, and Mr Vlado Gotovac of the Social Liberal party, criticised Mr Tudjman during a lacklustre campaign for his stranglehold over state media and for using state funds for his rallies. Mr Gotovac was hospitalised this month after being hit on the head by an army soldier who shouted his support for the fascist Ustashe regime in Croatia during the second world war.

Mr Tudjman was widely expected to secure more than 50 per cent of the vote yesterday. The turnout was slow but officials forecast about 60 per cent of the electorate would cast their ballots. *Guy Dinmore, Zagreb*

Three-nation drug swoop

A co-ordinated drug swoop by police in France, Belgium and the Netherlands has led to the arrest of 277 people and a haul of soft and hard drugs. In all 2,300 officers from the three countries were involved in the overnight operation, which found 8.8kg of cannabis, 3.2kg of heroin and 150 ecstasy tablets. Those arrested included 72 in France, 174 in Belgium and 31 in the Netherlands. A similar operation was carried out on March 15.

France in particular has been pressing the Dutch authorities to take firmer action against drugs traffickers who it suspects of using the Netherlands as a base to bring supplies into France. "This operation has been a success. It proves we can work closely together with the Belgians and the Dutch to destabilise the drugs market," said a French police spokesman. *AFP, Lille*

Music industry assails Russia

Russia must give a firm commitment to clamp down on pirate recording before it can join the World Trade Organisation, the music industry has told Sir Leon Brittan, the European Union commissioner for external trade. "It is very important that the EU does not facilitate Russia'a accession to WTO without having obtained a firm commitment from the Russian authorities that these and other problems will be effectively dealt with," the International Federation of the Phonographic Industry record industry lobby said in a letter to Sir Leon.

It wants him to raise what it calls "rampant piracy of European music in Russia" during his current three-day visit to Moscow to discuss Moscow's ambitions to join the WTO. The IFPI, which groups big companies in the industry such as PolyGram, BMG and EMI, claims Russia is the largest pirate market in the world. The industry estimates its losses at \$300m and says turnover could double if piracy were controlled. *Reuter, Brussels*

Spartak director shot dead

The director general of top Russian soccer club Spartak, Ms Larisa Nechayeva, was shot dead outside Moscow yesterday. A police officer, speaking by telephone from Taratovo, about 120km east of Moscow, said she had been killed, along with another woman, at noon when their car came under gunfire. Ms Nechayeva, one the few women involved in soccer management, was in charge of the club's finances and sponsorship. *Reuter, Moscow*

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NEWS: AMSTERDAM SUMMIT

Cook urges EU to set its sights on new goals

'It is time we started looking beyond Amsterdam,' Britain's foreign secretary tells Philip Stephens and Andrew Gowers. 'There's a hunger for a new agenda'

Amsterdam Summit

Mr Robin Cook was in impatient mood. As the UK foreign secretary prepared to set off for the Amsterdam summit, he set out clear terms for a deal on a new European Union treaty. But just as clearly, he signalled Britain's desire to move on, to swap the institutional wrangling of the past two years for an agenda focused on more compelling goals such as employment and enlargement.

Sitting in the discreet VIP terminal at London's Heathrow Airport, Mr Cook voiced confidence this was the end game of the EU's intergovernmental conference.

There would be hard bargaining. And on a clutch of issues, notably border and immigration controls and defence, he would not cede ground. But there was "every prospect of getting a deal which will be good for Europe and good for Britain".

Though new in the job, Mr Cook is at ease with the constitutional minutiae preoccupying the EU's leaders. Yet his body language betrays a obvious frustration with this "politicians' agenda".

"It is time we all started looking beyond Amsterdam," he insisted. "In retrospect Maastricht was the high watermark of the integrationist drive." After signing that treaty, he added, the politicians had looked over their shoulders to discover the people were not following: "It is quite obvious among the leaders of Europe there is now a hunger for another agenda."

That agenda, he was certain, must concentrate on economic growth and jobs. The elections in Britain and France had provided the moment to pursue those concerns since the debate was now "in the left-of-centre half of the field".

It was also time, he said, that the 15 members of the EU matched promises with action on enlargement. Mr Cook would be "very unhappy" if a deal was not struck this week to restructure the EU's voting procedures to allow for the accession of the new democracies in central and eastern Europe. "We really do have to start to show that our rhetoric on this is matched by our willingness to face up to painful and difficult decisions."

On another contentious issue, Mr Cook was clear enough about his terms: "We must have a legally watertight provision for Britain's external border controls and control of our immigration."

Britain's strong preference was that co-operation in these areas stayed on an intergovernmental basis. But ultimately it was ends not means that counted. If others insisted on a direct role for community institutions, Mr Cook would not approach the issue on the basis of "religious fundamentalism". What was required was an outcome which "makes it perfectly clear that Britain's external border controls are not vulnerable to legal challenge in the European Court of Justice".

In the foreign secretary's mind, an important challenge at the summit was to "to prevent the drive to turn the EU into a defence organisation", through a merger with the Western European Union. Others wanted a commitment to combine the two organisations.

Mr Cook's position is that while the WEU can be charged with peacekeeping and humanitarian tasks, "our very strong view is that the collective defence of western Europe – and probably of western and central Europe – is in the hands of Nato and nothing should be done to undermine that." There must be no presumption that the EU and WEU would merge.

The foreign secretary, though, offered more conciliatory language on the thorny issue of "flexibility". Only a few months back the idea of inserting a clause in the treaty to allow some countries to move faster along the integrationist path was seen by Mr Cook and his colleagues as a serious threat, an invitation to a two-tier Europe in which Britain would inevitably fall behind.

Since then, the proposed new clause in the treaty had been subject to heavy qualification, so much so that it was difficult to see how it would "give rise to any practical outcomes". Britain would still argue for the principle of a blocking veto before any particular venture went ahead. But Mr Cook made this sound more an objective than a bottom line.

This preference for practical politics over theology manifested itself also in Mr Cook's response to the current struggle between Germany and France over the terms for economic and monetary union. Somehow he managed to sympathise with Paris while siding with Bonn.

Thus he was happy to endorse Mr Lionel Jospin's preoccupation with jobs: "We have no problem with making growth and employment objectives for the economic management of Europe". On the contrary: "There is no substantial body of opinion now which is saying unemployment can look after itself, it's a price worth paying, we must just plough on with the objectives of financial and currency integration. The debate is now over how do you actually tackle what we all now agree is the priority: unemployment and social exclusion."

Music, one might think, to Mr Jospin's ears. The foreign secretary, though, did not stop there. Fudging the criteria for the single currency was not the answer; it might even be counter-productive. "We've got to be adult, mature and responsible about this: growth and employment are very important objectives, but they can't be pursued at the expense of price stability."

With a euro that did not look credible, the new central bank "might feel an obligation to restore credibility by being even tougher on monetary policy and interest rates". Thus, "there is no short cut to greater employment through a soft euro".

Nor could France expect Britain's support for new EU spending on employment programmes. New Labour's prescription focused on "employability" – on skills, training, education – and on labour markets which were adaptable to economic change.

Of course, for the time being Britain can afford to stand back from the Emu debate. Mr Cook repeated that it was highly unlikely to be in the euro's first wave. Perhaps that is for the greater good. When France and Germany take the final decision on the single currency, Britain will hold the EU presidency. They may need an impartial referee.

Robin Cook: call for Europe to concentrate on economic growth and jobs
Colin Beere

French ploy to fund jobs plan

By David Buchan in Paris

In its push to persuade today's European Union summit in Amsterdam to give employment as high a priority as monetary stability, the new French government is pressing for the use of money from the European Coal and Steel Community (ECSC) to fund job-creating infrastructure projects.

The French propose drawing on the substantial reserves of the ECSC to fund the Trans-European Network (TEN) transport projects which have sat on the drawing board ever since they were first proposed in 1994. The ECSC has built up big reserves because it still imposes a levy on coal and steel but no longer pays out significant aid to these industries, which have been substantially restructured.

This was one of the proposals in Thursday's memorandum which took Chancellor Helmut Kohl aback, as he made clear at the Franco-German summit on Friday in Poitiers, where he came out against "any spending commitments or the transfer of new competences to Brussels".

However, French government officials claim this is a more promising way of funding the TEN projects than a big EU loan to which a majority of European finance ministers have already shown themselves resolutely opposed.

The French government's other proposals are for a summit resolution that would enshrine employment as a key element in macroeconomic policy co-ordination by governments sharing the future single currency, for reinforcing the proposed new jobs chapter in the European treaty, and for the EU to hold a special jobs summit later this year as suggested by the Commission.

Mr Lionel Jospin's government yesterday indicated determination to push these proposals as hard at Amsterdam as it has in the past few days, but also awareness that it might not get everything at once.

"The negotiating area which we have opened up last week could lead to a compromise that will produce a political success [at Amsterdam] on which we can build later," Mr Valls said yesterday.

Mr Jospin told senior members of his Socialist party on Saturday that he would not be satisfied if Amsterdam produced only a "social addendum" to the EU treaty and the German-inspired stability pact on monetary discipline.

But government officials indicate concrete results may come only later. In particular, they want to use an Amsterdam resolution on macroeconomic management of the future monetary union to get the EU to agree later this year to a legal text of equal weight to the stability pact.

Dutch capital keeps its cool

By Gordon Cramb in Amsterdam

A white balloon bobbed at the padded right shoulder of the riot policeman, tied to the tip of his rifle barrel, as colleagues jovially bundled away an anarchist suspected of smashing a shop window. This was crowd control, Amsterdam-style.

As heads of government arrived last night for two days of deliberations on the future course of the European Union, police in the Dutch capital were charged with keeping in hand those who wished in various ways to register their own views on the subject.

Some 12,000 motorcyclists from across the EU encircled the city in protest against curbs on engine noise. The European Marches against Unemployment, Poverty and Social Exclusion reached the end of their two-month road with a rally outside the royal palace which the organisers claimed had drawn 35,000. In a reversal of the usual headcount disparity for such demonstrations, police benevolently put the turnout at 50,000.

Their own ranks, drawing reinforcements from elsewhere in the country to double their usual 2,500 strength, were themselves not protest-free. About 100 constables staged a protest last week about the compulsory overtime which the summit entailed.

Their weekend duties involved removing bicycles chained to railings in the vicinity of the central bank, venue of the summit, and near the half dozen hotels being patronised by the visiting delegations. Those two-wheelers, suddenly deemed security hazards, were there out of local residents' habit rather than as any political statement.

Alone among capitals of the EU's original Six, Amsterdam has not previously hosted a summit. The Dutch government, having put the small southern city of Maastricht on the European map during its last presidency, has been anxious to crown its current term by showing that its unruly metropolis can be equally amenable to such events. It was adamant that the summit should take place not at a sanitised conference centre on the outskirts but in an inner city known best for its tolerance of prostitution and cannabis, and its unwillingness to be told what to do.

And so bemused police yesterday found themselves as spectators at exuberant outdoor events such as Ero-top and Eutopia, celebrating sexual freedom. At the Condomerie, a specialist boutique in the red light district, a window display festooned with the summit logo featured a brand of prophylactic known as the Euroglider. A street party demanding controlled legalisation of drugs produced pungent aromas nearby.

Group of eight to aim for co-operation in trade, finance and technology

Moslem nations join forces

By Kelly Couturier
in Istanbul

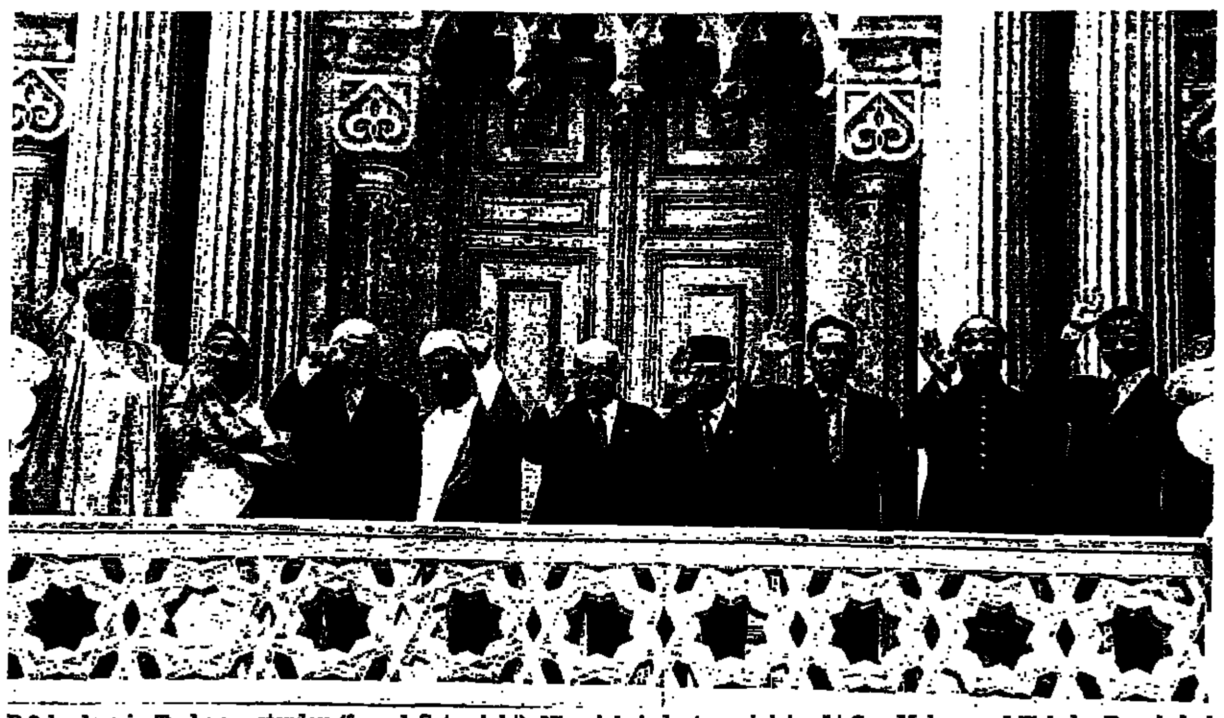
As the political crisis deepened in Turkey, leaders from eight Moslem nations came together in Istanbul yesterday to inaugurate the Developing Eight group aimed at fostering economic co-operation.

A declaration signed by the presidents of Turkey, Iran and Indonesia, prime ministers of Bangladesh, Egypt, Malaysia and Pakistan and Nigeria's industry minister, set out the D-8 goals of co-operation in trade finance, communication, technology and overcoming poverty.

The brainchild of Mr Necmettin Erbakan, Turkey's prime minister, the D-8 is an effort to raise the voice of the Moslem developing world in global trade and economic platforms which they believe are dominated by western economic groups.

The D-8 declaration proclaims "deep disappointment" with the "old policies of double standards, discrimination and oppression" that continue in the post-cold war era, and states the group's work will be carried out according to the principles of peace, dialogue, co-operation, justice, equality and democracy.

Six initial D-8 projects were identified, including the establishment of an industrial and technological data bank and joint venture schemes in the Islamic insurance, agriculture and aircraft industries.



D-8 leaders in Turkey yesterday (from left to right): Nigeria's industry minister Lt-Gen Mohammed Haladu; Bangladesh PM Sheikh Hassina; Necmettin Erkaban; President Hashemi Rafsanjani of Iran; President Suleyman Demirel of Turkey; President Suharto of Indonesia; Egypt PM Kamal Ganzouri; Pakistan PM Nawaz Sharif; and PM Mahathir of Malaysia Reuter

With little more in common than their Moslem populations and developing economic status, D-8 leaders speeches in the opening in the inauguration ceremony reflected disparate and sometimes conflicting ideologies.

Iraninan President Akbar Hashemi Rafsanjani used the forum to criticise the recent adoption of a resolution of the US Congress concerning the transfer of the US embassy in Israel from Tel Aviv to Jerusalem. "The decision to transfer the embassy from Tel Aviv to *Al Qudf* [Jerusalem] requires appropriate reaction from the Islamic world and from this forum of countries encompassing the majority of Moslem population worldwide."

Mr Erbakan's efforts to steer traditional western leaning Turkey towards the Moslem world since coming to power a year ago have infuriated the country's powerful military which warned last week that it would use force if necessary to protect Turkey's secular traditions.

Doubts about the political future of Mr Erbakan's Islamic-led coalition government clouded the inauguration.

● Turkey has pulled out up to 100 tanks from northern Iraq since Friday in a partial withdrawal.

Turkish military officials acknowledged on Saturday that some armoured vehicles had been pulled out from northern Iraq, but insisted a total withdrawal was not under way.

The Hurriyet newspaper, quoting unnamed military officials, said the tanks had completed their duty and were no longer needed in Turkey's month-long offensive against Kurdish rebels in northern Iraq.

Turkey sent more than 25,000 troops into northern Iraq on May 14 to wipe out the bases which autonomy-seeking Turkish Kurdish rebels use to launch attacks on Turkey.

The military claims to have killed about 2,500 rebels since the start of the offensive, but the rebels deny having lost so many fighters. The official death toll for troops is 99.

Engine contract victory for R-R

Airbus Industrie, the European manufacturing consortium, said yesterday that it had selected Rolls-Royce of the UK as the supplier of engines for its long-range and "stretched" versions of the A340 aircraft, Michael Skapinker reports.

The announcement follows the breakdown of talks between Airbus and General Electric of the US over an agreement which would have made GE the exclusive supplier of engines for the aircraft.

Mr Jean Pierson, Airbus managing director, said yesterday that Rolls-Royce did not have exclusive rights to make engines for the aircraft, leaving the way open for Pratt & Whitney of the US to supply engines as well.

The long-range version of the A340 will have 300 seats – the same number as the existing version – but will fly 1,000 miles further. The "stretched" version will have 380 seats and will compete with smaller models of the Boeing 747.

Mr Pierson said Airbus would announce the go-ahead for the project in the autumn if the new aircraft models win sufficient customers. They would enter service in 2001 and would cost $2.5bn to develop.

Airbus nears compromise on factories

By Michael Skapinker
in Paris

The four manufacturers which own Airbus Industrie were yesterday moving towards a compromise which could ensure the European consortium meets its target of becoming a limited company by 1999.

Some European executives had begun to fear that the plan to turn Airbus into a profit-making company might collapse because of disagreements between the Germans and British and the French.

But in talks at the Paris air show, the four companies – Aerospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace, and Casa of Spain – have tentatively agreed to a French proposal that Airbus be allowed to manage all manufacturing facilities but that the partners continue to own them.

Airbus is a Groupement d'Intérêt Economique, a French legal construct which does not publish accounts and which makes no profits or losses in its own right.

The partners believe a change in status is necessary to enable Airbus to compete with Boeing of the US, its larger rival, which plans to merge with McDonnell Douglas. While Dasa and BAe have called for Airbus to take charge of all civil aircraft manufacturing, Aerospatiale has said factories should remain in the hands of the partners.

However, Mr Manfred Bischoff, Dasa's chairman, said yesterday: "Whatever model we use, the most important thing is that Airbus management must have total control of all development, production and customer support. The question of legal ownership [of the factories] is secondary."

BAe supports the emerging compromise, but insists that it must be a first step towards transferring all the factories to Airbus.

The election of the Socialists has thrown the future of France's aerospace industry into confusion. The previous conservative administration had planned to privatise Aerospatiale, which was to merge with Dassault Aviation. The new government's plans are unknown.

● Mr Serge Dassault, chief executive of Dassault Aviation, said he was "rather satisfied" the Belgian judicial authorities had lifted an international arrest warrant against him, AFP adds from Paris.

The Belgian legal authorities issued the warrant in May 1996 following allegations that Dassault Aviation paid bribes to win contracts to modernise Belgian air force jets.

Cuba sets up new central bank in drive for financial reforms

By Pascal Fletcher in Havana

Cuba's government, crowning a two-year expansion and modernisation programme in the national banking and finance sector, has established a new central bank, the Banco Central de Cuba.

The new institution, created through a government decree announced by state media at the weekend, succeeds the existing Banco Nacional de Cuba, which since 1960 had combined the roles of central bank and state commercial bank on the communist-ruled Caribbean island.

These roles have now been separated in a restructuring programme aimed at creating a more modern and diversified banking sector. The newly created Banco Central de Cuba has its own separate legal identity. It will supervise and regulate the expanded banking sector, which features seven new Cuban banks and a group of financial companies and institutions mostly set up over the last two years.

A separate decree establishes a register and regulations for all banks and financial institutions licensed to operate in Cuba. Foreign banks are only allowed to open representative offices on the island, rather than full branches. Thirteen foreign banks have so far obtained such licences.

Mr Francisco Soberón Valdés, who as head of the Banco Nacional de Cuba has been the driving force behind the Cuban banking reforms, was named president of the new central bank. The bank's functions will include issuing national currency and drawing up and applying monetary, credit and exchange rate policies.

The Banco Nacional de Cuba, founded in 1948 as the Cuban central bank, will continue to operate as a commercial bank. Its responsibilities will include holding and servicing Cuba's foreign debt, which Mr Soberón said in London last week totalled around $10.4bn. But actual debt negotiations will be conducted by the new Banco Central de Cuba.

Speaking at a conference of Latin American economists in Havana on Friday, Mr Soberón said the Cuban bank restructuring had been deliberately gradual. It was designed to respond to a wider demand for credit and services from new clients, such as foreign businesses, investment joint ventures, semi-autonomous hard-currency corporations, co-operative farms and self-employed workers.

Mr Soberón stressed the Cuban economy would remain centrally planned, but based on considerations of efficiency and financial results.

"We are not heading to a market economy. We are trying to introduce market economy instruments to be more efficient," he said.

Anger at crackdown on HK protests

By John Ridding in Hong Kong

Hong Kong's post-colonial legislature has passed laws giving the authorities stronger powers over demonstrations and tighter regulations governing political parties, drawing condemnation from pro-democracy groups, Britain, and the outgoing administration.

The laws, passed on Saturday, will take effect when Hong Kong returns to Chinese sovereignty on July 1.

"These changes to the laws represent a step backwards for freedom and will revive colonial restrictions on the exercise of basic rights, including association and demonstration," said Mr Martin Lee, leader of the Democratic party, the largest party in the Legislative Council. "This is a clear sign of things to come."

A Hong Kong government spokesman described the laws as a step backwards for civil liberties, criticising the Beijing-backed provisional legislature. "It's a bleak thought that this is the rubber-stamp body replacing Hong Kong's legitimate democratically elected Legislative Council," he said.

Mrs Rita Fan, president of the post-colonial legislature, dismissed criticism and said there would be no reduction in civil liberties. The government-in-waiting has argued that the new laws are to fill a legal vacuum as China's National People's Congress scrapped existing laws, and that the amendments are in line with international covenants on human rights. But Mr Tung Chee-hwa, the territory's future leader, has also signalled the need to strike a balance between civil liberties and social order.

Under the new laws, demonstrators require a notice of no objection for planned rallies and police are empowered to ban protests on grounds of national security. This amendment has been at the centre of criticism over the new laws, with opponents arguing that the grounds are vague. "The introduction of the concept of national security leaves the laws open to interpretation and to political censorship," said Mr Lee.

The Hong Kong University Students' Union said members planned a demonstration to challenge the new laws on July 1. The Democratic party has also announced plans to sue the provisional legislature, which, it says, has no foundation in the Basic Law, the constitution for post-colonial Hong Kong.

Laws which have been passed by the provisional legislature are due to be "verified" in the Reunification Act to be passed at the body's first meeting in the early hours of July 1. The provisional legislature will be sworn in as part of the handover ceremonies, although Britain and the US have said they will boycott that part of proceedings.

Global Investor, Page 22; Hong Kong Survey, Separate Section

China 'ready to support financial stability'

China has pledged strong support for the independence of Hong Kong's monetary system, but is also ready to provide standby support in an emergency, Tony Walker writes from Beijing.

Mr Dai Xianglong, central bank governor, yesterday committed China to a policy of "non-interference" as part of continuing attempts to bolster confidence in the territory ahead of the July 1 takeover.

Mr Dai, in the official China Daily Business Weekly, said Beijing respected the Hong Kong Monetary Authority's ability to handle possible fluctuations in the territory's financial markets before and after the handover.

"But," he added, "the People's Bank of China would offer assistance according to Hong Kong's financial regulations and the Basic Law" (the "constitution" of the Special Administrative Region).

The combined foreign exchange reserves of China and Hong Kong stand at about $200bn. China's reserves of $111bn at the end of February are second only to those of Japan.

Officials of China's central bank and representatives of the HKMA have been involved in close consultations over arrangements for the handover.

Mr Dai said that preserving Hong Kong's financial well-being was necessary to Hong Kong, the mainland and the Asia-Pacific region. He hailed the HKMA's "tremendous efforts" to strengthen financial regulations and preserve exchange rate stability.

"We are glad to see Hong Kong's financial situation is moving towards a smooth transfer," Mr Dai added. "We are confident about financial stability after the handover."

Mr Dai also predicted Hong Kong's position as "an international financial hub" would be fortified after the handover. The mainland's own "sustained, high-speed and sound development would create new opportunities for Hong Kong's financial industry".

Weighty blueprint for Japan's Big Bang

With the support of a determined government, plans to transform the country's markets in the next five years are moving faster than expected, reports Gillian Tett

When Mr Ryutaro Hashimoto, Japan's prime minister, said in November he would deregulate the country's financial markets in a "Big Bang" by 2001, some cynics felt a sense of déjà vu.

For Japanese officials have frequently made grandiose pledges about reform before – only to shelve them quietly later. Last week, however, the cynics had some reason to think again.

For after seven months of deliberation, three government-backed advisory panels have produced a timetable showing how the government intends to transform the country's markets in the next five years.

The plans do not make easy reading: the English-language version runs to five weighty documents, with the "summary" timetable covering 11 pages alone.

But the complexity reveals the ambitious nature of the project, for the proposals are attempting nothing less than a complete overhaul of the country's financial system, to make it globally competitive. Consequently, proposals target the securities industry and spread out into insurance and banking.

The sheer wealth of detail also shows the level of determination in the Japanese government to press ahead with the project.

And, by Japanese standards, the project is almost speedy. Reform to the insurance sector is slower than the banking industry wanted because of opposition by insurance groups. But most of the securities sector reforms will be implemented within the next two years – much faster than originally expected when the project was unveiled last year.

This speed partly stems from a sense of panic. In recent years Tokyo has been rapidly losing market share to other financial centres such as London and New York.

Concern over this has been exacerbated by one Big Bang reform already passed by parliament for implementation next April: the repeal of the last foreign exchange controls.

This move will give companies and investors far greater freedom to conduct their financial business outside Tokyo if they are unhappy with the services offered in Japan. Consequently, Japanese officials fear that even more business could flow out of the country, unless its markets become more attractive.

Whether the timetable unveiled last week will be fast enough – or far-ranging enough – to prevent this potential outflow remains crucially unclear.

However, the proposals aim to give Tokyo a new competitive edge by introducing two broad reforms.

The first is a removal of current restrictions on the type of financial products traded and offered in Japan. This year, for example, options trading on individual stocks will be introduced. Next year the spread trading of short-term yen interest rate futures is also expected. And by April 1999 it is proposed that many restrictions on securities derivatives will be lifted.

In an effort to encourage a more efficient use of Japanese savings, institutions will also be given greater freedom in the type of retail investment vehicles they can offer to customers.

However, the second thrust of the reforms concerns the structure of Japan's financial industry. For in an effort to introduce greater innovation, the proposals aim to create more competition between the different types of financial companies operating in Japan.

Stockbroking commissions, for example, will be liberalised to generate more competition in the sector. And the barriers which have traditionally prevented banks, securities companies and other financial institutions from entering one another's areas of business will be steadily removed.

In the 1999 fiscal year, for example, current restrictions on banks' securities and trust banking subsidiaries will be lifted. Later, banks will be able to start selling some insurance products.

As a further spur to competition, the proposals call for repeal of remaining restrictions on banks forming financial holding companies. This follows a decision by parliament to lift the 50-year-old general ban on holding companies.

The reforms still leave some gaps. Although foreign companies assume, for example, that the reforms will give them greater opportunities to compete in Japan, the proposals do not specifically touch on issues of market access.

There is still little sign that the government is preparing to unleash competitive forces in the country's huge state-backed financial institutions, such as the postal savings system.

Firm proposals for taxation reform, urgently needed to make Tokyo attractive by global standards, have also yet to emerge.

And it remains unclear how the authorities will address the regulatory and legal issues thrown up by Big Bang: although last week's proposals call for tougher penalties for financial scandals, for example, details remain vague.

But as a first step towards reform, the blueprint is a striking one. The key question now is whether Japan's financial industry can respond fast enough – before the promised wave of competition hits it.

Markets: Tokyo, Page 24

Big Bang: the key proposals

1997*
- Introduction of options trading in individual stocks
- Asset management accounts at securities firms permitted

1998*
- Liberalisation of brokerage commissions on transactions over ¥50m
- Liberalisation of foreign exchange operations, overseas deposits and cross-border securities transactions
- Bank of Japan given nominal independence to set interest rates
- Powers of the Securities and Exchange Surveillance Commission strengthened; penalties for financial transgressions toughened
- Current restrictions on securities derivatives lifted
- Banks permitted to sell investment trusts
- Financial institutions allowed to establish companies in Japan to issue asset-backed securities
- Holding companies permitted: initial restrictions on financial holding companies to be removed later

1999*
- All stockbroking commissions liberalised
- Current business restrictions on brokerage houses and trust bank subsidiaries lifted
- Commercial banks permitted to issue bonds

2001*
- Banks and insurance companies permitted to enter each other's businesses through subsidiaries

* Fiscal year: eg, April 1 1997 - March 31 1998

Source: Japanese government advisory panels

India denies missile claims ahead of Islamabad talks

By Khozem Merchant in New Delhi

The Indian government has dismissed as "false and mischievous" US media reports claiming that New Delhi has positioned medium-range missiles at its border with Pakistan. The denial comes ahead of the resumption of bilateral talks between India and Pakistan in Islamabad this week.

The denial of the reports was one of three developments last week which, but for the recent thaw in Indo-Pakistan relations, might have soured the mood ahead of the talks by the two countries' foreign secretaries on Thursday.

In the other developments, Pakistan said its airspace had been violated by an Indian military aircraft; and a Pakistani major was killed in the Sialkot sector in a cross-border class with Indian border troops, which New Delhi says was the result of unprovoked firing from across the border.

These incidents would once have provoked recriminations. But after their talks at a south Asian regional summit in Malle in May, India's prime minister, Mr I.K. Gujral, and his Pakistan counterpart, Mr Nawaz Sharif, agreed to adopt more statesmanlike postures in the face of media speculation which could destabilise bilateral relations.

The Malle meeting was the first direct talks between the two countries' leaders in three years. This week's round of talks, which continue for five days, will try to build on the Malle consensus. They will mostly focus on confidence-building measures on the most intractable problem, Kashmir, and on bilateral trade.

The thaw in relations appears to be driven by a close friendship between the two prime ministers, both Punjabis. As foreign minister in the previous administration, Mr Gujral had outlined his "Gujral doctrine", designed to improve links with all of India's neighbours. This has brought improved bilateral relations with Bangladesh and Nepal.

INTERNATIONAL NEWS DIGEST

Court backing for Netanyahu

Israel's supreme court yesterday rejected petitions aimed at indicting Mr Benjamin Netanyahu, Israel's prime minister, in an influence-peddling scandal surrounding the short-lived appointment of an attorney-general.

Political analysts, and Mr Netanyahu's aides, said the decision marked the end of the so-called Bar-On affair, which nearly toppled the government earlier this year.

Two months ago, Israel's attorney general decided not to charge Mr Netanyahu with breach of trust in an alleged conspiracy to appoint Mr Roni Bar-On as attorney general under pressure from a powerful parliamentary deputy who reportedly sought a plea bargain for unrelated corruption charges.

The attorney general said at the time despite "real suspicions" of wrongdoing, lack of evidence prevented an indictment against the prime minister. Four of five Israeli justices yesterday voted not to overrule his decision.

■ Palestinians and Israeli troops clashed at the weekend in the West Bank town of Hebron, on the border between Israeli and Palestinian-controlled districts of the city. The Palestinians were protesting against a decision by the US House of Representatives to recognise all of Jerusalem as Israel's capital, including the disputed east of the city.

■ Liberal economists yesterday criticised proposed Israeli land reforms, saying the government-backed plans would be ineffective in solving economic distortions caused by decades of centralised land policy. The Israeli government had earlier approved recommendations of the state-appointed Ronen commission aimed at breaking the state's grip on land. *Avi Machlis, Jerusalem*

Algerian PM back in the job

Algeria's outgoing prime minister, Mr Ahmed Ouyahia, has been named by President Liamine Zeroual to head the new government.

Mr Ouyahia's National Democratic Rally won 155 seats in the new 380-seat parliament elected on June 5. Mr Ouyahia had served as prime minister since January 1996. He had formally stepped down so the new government could be formed but his reappointment had been expected.

The elections were the first multi-party parliamentary poll since the beginning of a bloody five-year insurgency by Moslem extremists that has left more than 60,000 people dead. *AP, Algiers*

Morocco elections criticised

Opposition parties in Morocco, whose candidates lagged behind in last week's local elections, yesterday claimed there were irregularities in the ballot in spite of pledges by the authorities. The opposition Progress and Socialism party (PSP) said the elections had not "held their promise" despite progress, and much remained to be done before parliamentary elections due in September.

The PSP is one of the four-party opposition Koutla group. With around 400 results still awaited yesterday out of more than 24,000 seats, the Koutla bloc had nearly 32 per cent of the seats, compared with just over 20 per cent in the last local election in 1992. But candidates for the pro-government rightist Wifaq group and a centre-right group, led by the Independent National Rally (RNI), dominated with their 30 per cent and 26 per cent of the seats respectively. *Reuter, Rabat*

Blaze at Bangladesh gas field

An explosion set ablaze a gas field in north-east Bangladesh yesterday, injuring at least four people and forcing hundreds to flee the area. Firefighters and technical experts were being called in from Singapore and the US.

Flames shot high into the air and spread several kilometres from the site, where Occidental, the US group, has been exploring for gas. Eyewitnesses said intense heat had cut the Dhaka-Sylhet railway line, melting part of the steel lines.

Occidental, had started drilling at the site earlier this month as part of larger exploration activity in the area. Occidental signed a production-sharing agreement with the government of Bangladesh last December to explore and develop fields in the north-eastern areas of the country. *Kasra Naji and Reuter, Dhaka*

Pakistan approves bank sale

Pakistan has given formal approval to the sale of the Habib Credit and Exchange Bank (HCEB), once part of the collapsed Bank of Credit and Commerce International (BCCI). A 70 per cent stake in HCEB was sold for $39m to the UAE's Sheikh Nahayan bin Mubarak Al Nahyan group, which made the highest offer in the final bidding.

The government retains 20 per cent of HCEB's shares, while the remaining 10 per cent will be offered to employees. *Farhan Bokhari, Islamabad*

Lawn tractors mark rise of new black middle class

Patti Waldmeir and Heather Bourbeau report from Prince George's County – unique in the US for its racial mix

There are 16 models of self-drive "lawn tractor" in the garden department of Sears at the Landover Mall in Prince George's County, Maryland. Priced comparably to a small used car – between $999 and $5,000 – they serve a higher function than lawn-mowing and are the perfect locator for the middle class.

But those who follow the lawn tractors to Prince George's County discover more than just another suburban cliche. "PG" county, just outside Washington DC, is racially, socially and culturally unique.

It is America's wealthiest and best-educated majority-black county – and the first big area to go from mostly white to mostly black while seeing income and education levels rise rather than fall.

It is the symbolic home of a new black middle class, fruit of decades of economic growth, urbanisation, and the civil rights movement. At a time when affirmative action is in retreat across the nation – though President Bill Clinton continues to defend the policy, as he did in a speech on Saturday – Prince George's can plausibly be seen as an affirmative action success story. Most of its black residents benefited from the policy, either because they worked for the federal government, the most aggressive affirmative actor, or because their education or career were furthered by civil rights legislation.

But Prince George's is also a test case for integration. It is one of the most racially mixed counties in the nation (54 per cent of residents are black, 40 per cent white and the rest Latino and others).

Mr Wayne Curry, the black executive of the county council, likes to call Prince George's "the jewel in the crown of the post-civil rights era". With its unique history of black immigration, white flight and forced school busing, the county casts issues of race and class in sharp relief.

Forty years ago, Prince George's was white man's country: the largely rural home of the Maryland tobacco farmer. Large-scale property development in the 1960s led to an influx of blacks from just across the invisible line in inner-city Washington. But the real impetus to the creation of a black middle class in Prince George's was the departure of the white middle class – and that was the result, at least in part, of racism.

When the US Supreme Court ordered 24 years ago that white and black schoolchildren should be bused around Prince George's to achieve rapid educational integration, much of the white middle class moved out. Working-class whites were trapped, unable to afford to move. But the middle class exodus left a void of affordable housing which was filled by blacks.

Prince George's became a magnet for black suburbanisation, for all the familiar class-based reasons: middle-class blacks, like their white counterparts, wanted good schools, big houses, quiet neighbourhoods – and the odd lawn tractor.

Soon black Prince Georgians were exhibiting the same obsession with property values and neighbourhood safety as their white compatriots. In areas nearest the inner city, residents began taking down basketball hoops at night to discourage visits by the urban "underclass".

They were doing no more than emphasising the path they had travelled, largely as a result of the civil rights movement, and the 1964 Civil Rights Act, which made job and educational discrimination illegal. The aim of the movement was to lift blacks out of poverty, and settle them permanently in the mainstream of economic life. Professor Bart Landry of the University of Maryland's College Park campus in Prince George's County, has chronicled the rise of what he calls "the *new* black middle class".

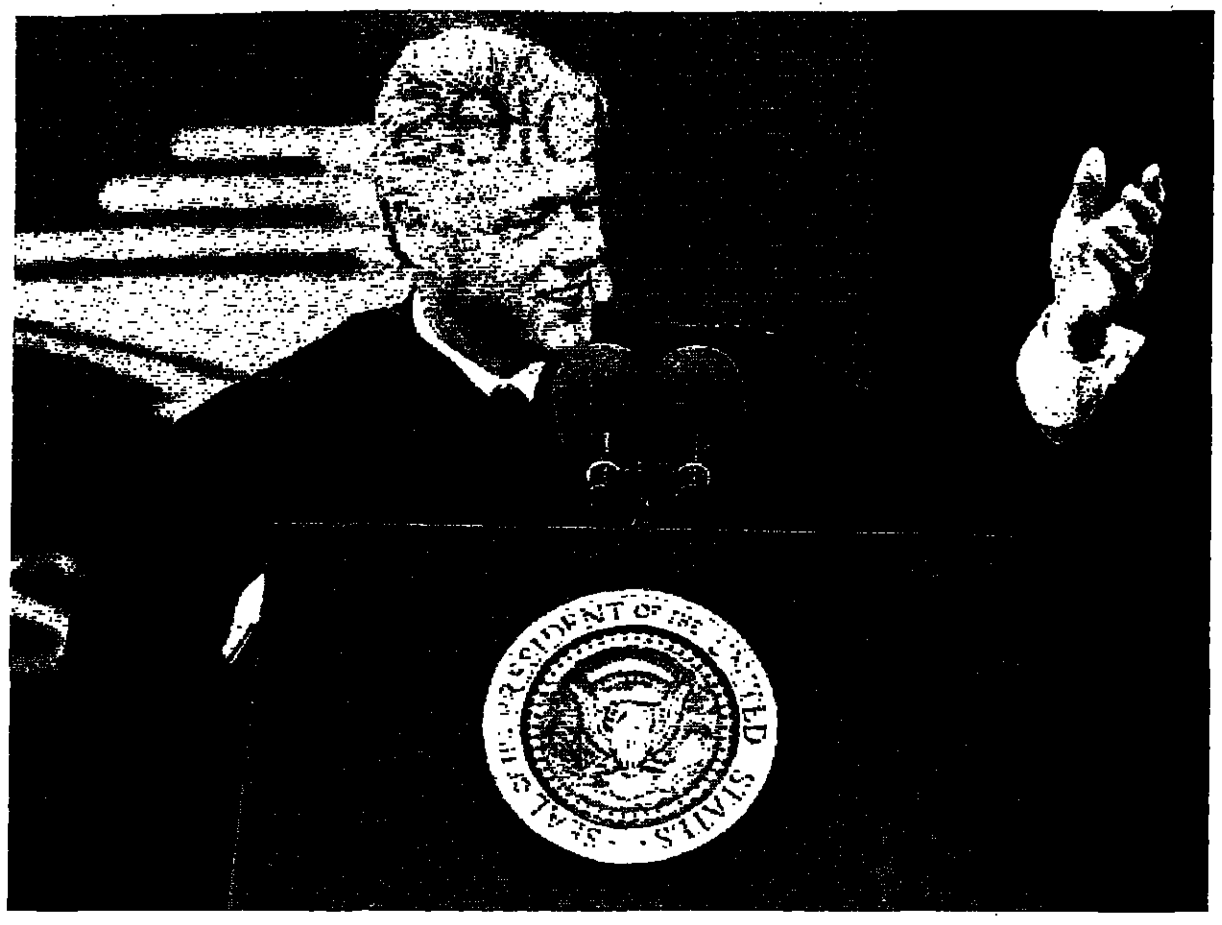
"The civil rights movement made it possible for the black middle class to expand at an unprecedented rate," he says, adding that it grew not only in size but in scope, with many new occupations opening up to blacks. Where the old black middle class were teachers and letter carriers, the new class were consultants and computer programmers.

The proportion of employed blacks in white-collar jobs rose from 13 per cent in 1960, to 27 per cent in 1970, and to 45 per cent now, says Prof Landry, noting that the biggest rise was in the 1960s when legal action and economic growth fortuitously coincided.

"The black middle class has achieved critical mass," giving blacks a powerful new role in both politics and policy formation, he says. But black entrepreneurship remains "an uphill battle": corporate restructuring has hit low-skilled blacks harder than whites: and many of the black population remain in the underclass.

Still, Prince George's county must be counted a success story – if only because some middle-class blacks are now leaving the area for even more affluent counties deeper in suburbia. The reasons are always the same: schools, crime, property prices... the mantra of middle-class America, black or white.

Dateline Washington, Page 9



President Bill Clinton launched a year-long campaign against racism at the weekend, opening with a defence of affirmative action and a plea for Americans to cast off prejudice, Patti Waldmeir writes.

"We have torn down the barriers in our laws," he said in an address at the University of California at San Diego (picture, left). "Now we must break down the barriers in our lives, our minds and our hearts... That is the unfinished work of our time."

Mr Clinton intends to carve out a legacy for his presidency by taking the lead on race issues. His speech was embellished with lofty rhetoric but lacked concrete announcements. He chose to deliver the speech in California, where voters passed a measure last year to abolish racial preferences in public programmes. Mr Clinton said his aim was to launch "a great and unprecedented conversation about race", which will include town hall meetings, conferences and reports aimed at bridging the race gap. Picture: Reuter

Colombian guerrillas to free 70 soldiers

By Sarita Kendall in Bogotá

Seventy captured soldiers and marines were due to be handed over to the government by the leftwing Revolutionary Armed Forces of Colombia (FARC) yesterday, after being held for nearly 10 months.

International observers and Red Cross delegates were present for the handover ceremony, giving implicit status to the guerrillas as a combatant force.

Helicopters ferried the prisoners to the small town of Cartagena del Chaira in the southeastern jungles of Colombia, where welcome banners decorated the streets and hundreds of relatives and reporters awaited their release.

The 60 soldiers were captured during an attack by FARC guerrillas on the military base of Las Delicias last August.

A further 31 soldiers were killed in one of the Colombian army's worst defeats in recent years.

Ten more marines captured by different FARC soldiers in northwest Colombia were picked up by a Red Cross helicopter and flown down to the release area on Saturday.

Cartagena del Chaira has been under guerrilla control since the government agreed to FARC demands to demilitarise an area of 13,000 sq km to allow the release of the prisoners.

The 70 young men were to be flown to an army base outside the demilitarised zone for physical and psychological check-ups. They are to be given their army discharge papers today.

Although some political and church leaders have said the release of the prisoners sets the scene for peace negotiations with the FARC, others believe the process simply shows the power of the guerrillas to impose their conditions on the government.

The whole country has awaited the release of the soldiers for months and the press conference which was organised by the guerrillas in Cartagena del Chaira has ensured them a nationwide audience.

The propaganda victory is significant. While the government is being condemned for human rights abuses, the guerrillas, who are present in more than half of Colombia's municipalities, are trying to show that they observe humanitarian rules of war.

However, they still hold many civilian hostages.

Drug controls criticised

By Raymond Colitt in Caracas

Venezuela's pharmaceutical industry, led by several multinational companies, has stepped up its campaign against government price controls and a legislative proposal which, it says, would introduce excessive regulation of the industry.

Industry representatives are calling for an immediate end to price controls introduced in January 1994 and say cost increases since then have far exceeded cumulative price increases.

According to the Venezuelan Chamber of Medicines, which represents multinational pharmaceutical companies in Venezuela, the industry has put investment projects on hold as a result of the controls.

"The majority of the pharmaceutical companies barely have enough cash flow to cover their current expenses, let alone make new investments," says Mr Francisco Allende, executive director of the chamber.

According to the Latin American Federation of Pharmaceutical Industries, Venezuela has the region's cheapest medicines, with an average of $1.79 per unit in 1996, compared with $4.79 in Peru and $8.90 in Argentina.

"If the government cannot liberalise the prices for social or political reasons, then, at least it should establish a formula for periodic price increases that allow a reasonable return," said Mr Allende.

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Dividend tax credit expected to be scrapped

By Robert Peston, Political Editor

The abolition of the 20 per cent tax credit on dividend payments, which would raise up to £5bn ($8.15bn) from pension funds and other tax exempt institutions, is the Treasury's preferred option for reforming the corporate tax system in next month's Budget.

There will be no moves to abolish mortgage interest tax relief or other big changes to personal tax in the special July 2 Budget, according to senior ministers and officials.

They say the prime minister has ruled out any measures which could be seen as breaking the spirit of his manifesto pledge not to raise the basic or top rates of income tax.

However, Mr Gordon Brown, the chancellor, is planning a controversial raid on pension funds' income. He has been advised by senior officials that the tax advantages for pension funds of receiving dividends under the current system is partly responsible for British companies' relatively high dividend payments and low investment rates.

"The centrepieces of the Budget will be the windfall tax [on privatised utilities] and getting rid of that tax break for pension funds," said a senior member of the government.

The dividend change would mainly hit tax-exempt institutions such as pension funds, charities and some insurance funds.

Pension funds could be deprived of annual income running to £3.5bn.

However there are likely to be transitional arrangements to shelter tax exempt individuals from the full impact and these could extend to charities, which stand to lose £250m a year.

Pension funds have warned they may need injections from companies to make up for lost income and fall in market values.

A cut in mortgage interest relief - Miras - is not expected, in spite of widespread speculation that it would be abolished.

Also unlikely are any moves to increase tax paid by higher rate taxpayers through restricting relief on personal allowances to the basic 23p rate.

Mr Brown needs to find a significant source of new tax income, because in the next few days he is expected to publish figures showing a sharp increase in projected public borrowing compared with the forecast in the last Budget.

This apparent deterioration in the public finances has been prompted by a review of the accounting assumptions underlying the forecast carried out by the National Audit Office.

The NAO is expected to recommend that changes to those assumptions introduced in the previous government's last Budget, should be amended.

The Budget is not expected to abolish the 20 per cent tax paid by companies on their dividend distributions, called advance corporation tax, which gives rise to the associated tax credit.

Senior Tory warns party could split

By George Parker, Political Correspondent

Mr Michael Heseltine, the former deputy prime minister, yesterday suggested the opposition Conservative party could split if either Mr William Hague or Mr John Redwood – the two right-wing candidates – won this week's battle for its leadership.

Supporters of Mr Kenneth Clarke, the pro-European former chancellor of the exchequer, are growing increasingly strident in their warnings of impending doom in the event of a rightwing victory. They are alarmed by Mr Hague's determination to rule out Britain's membership of a single currency for the foreseeable future, and his Eurosceptical tone.

Yesterday Mr Hague went a step further when he promised to unpick any moves taken by the Labour government towards closer European Union integration – including membership of a single currency – if he became prime minister. His rhetoric has caused alarm from MPs on the Tory left, who fear they would be isolated and marginalised if Mr Hague was to win the increasingly bitter contest.

Mr Redwood is widely expected to drop out of the contest after the second ballot tomorrow because of a lack of support, leaving the way clear for a run-off between Mr Hague and Mr Clarke on Thursday.

Mr Clarke's supporters fear their candidate could be defeated in the third ballot by the combined forces of the Tory right, and some have warned privately they would defect to the Liberal Democrats if this happened.

Mr Heseltine, who confirmed yesterday he would return to the backbenches regardless of the outcome of this week's contest, yesterday added his voice to warnings of a possible civil war. He said Mr Hague would be "unwise" to stick to his plan to rule out joining a single currency under any circumstances for at least 10 years. "It would have a serious risk of igniting a period of disunity which would . . . in my mind recreate the atmosphere of 1979, not in the Conservative party, but in the Labour party," he said.

The Labour party was riven by splits between left and right after the 1979 election defeat, leading to the creation in 1981 of the Social Democratic party.

Mr Clarke, displaying signs that he feared a defeat, stepped up his attacks on his rivals, claiming they were fighting irrelevant and outdated battles over Europe.

Tank carrier bids for Arab truck deal

Britain's hopes of winning the country's biggest ever export order for heavy trucks are sailing the high seas as a 750hp demonstrator tank transporter (right) makes its way to Abu Dhabi for gruelling desert tests, Haig Simonian writes.

The Alvis Unipower model, the British contender in an international contest to supply up to 200 transporters to the United Arab Emirates, is the most powerful road-going vehicle ever built in the UK. The 122-tonne transporter boasts the world's biggest automatic gearbox for a road-going vehicle, and can travel at up to 50mph while carrying a full battle tank.

The vehicle will be matched against rivals from Tatra of the Czech Republic, up to three German transporters and one from the US. The contract is for 120 transporters for a fleet of 450 French Leclerc battle tanks, but may be raised to at least 200. The deal requires vehicles with at least eight-wheel drive and engines of 600hp or more.

The trials could offer a big prize for the winner, as a number of Middle East states are looking for transporters. Demand has been stimulated by the increasing weight of battle tanks, which require more powerful transporters.

The Alvis Unipower vehicle has been purpose-built for the competition.

London Underground 'could be sold off'

By George Parker

The London Underground could be effectively privatised under a range of options being urgently considered by the government, it emerged yesterday.

Mr John Prescott, deputy prime minister, is looking at selling a controlling stake in the Tube to the private sector as part of a drive to inject investment into the network.

Details of the plan emerged after Mr Prescott left a folder containing confidential policy papers in a room with BBC journalists after recording an interview for tonight's *Panorama* programme.

A furious Mr Prescott accused the BBC of "stealing" the papers, but confirmed he was exploring all forms of public-private partnerships for the Tube.

The draft document sets out four options identified by ministers for involving the private sector in the running of the Underground.

One would involve a public-private joint venture to run the whole LU business, with the private sector becoming the majority shareholder.

A second would see the creation of a public-private venture to run the network's infrastructure – the track, signals and stations – with a separate public-private partnership running train services.

Under both options, the Treasury has insisted the private sector should take a majority stake to ensure investment does not count against public expenditure totals. A third option would be to offer "vertically integrated franchises" covering infrastructure and train services for individual lines or groups of lines. A fourth alternative would be to let a franchise to run the whole LU system.

The disclosure that the government could sell a controlling stake in the Underground comes only four months after Labour opposed the former Conservative government's plan to privatise the network.

While the Tories were prepared to consider the outright sale of the network, the government appears determined to retain a minority stake. That complies with Labour's manifesto commitment to oppose "wholesale privatisation".

The Department of Transport believes the whole system could be sold for £1bn-£2bn, ($1.63bn-$3.26bn) but it needs £1.2bn spent to clear an investment backlog.

Mr Prescott plans to advertise this week for financial advisers to consider the options, with a brief to produce a final report by September.

A draft letter from Mr Prescott to Mr Geoffrey Robinson, the Treasury minister responsible for the private finance initiative, in which private funding is sought for public-sector projects, admits the political sensitivity of the proposals. He plans to ask his press office to "brief selected journalists who are likely to report this story in a positive light".

Expanded regulator to be told to let City 'breathe'

By John Gapper, Banking Editor

The government is likely to encourage the Securities and Investments Board, which is to unite all forms of financial services regulation in the City of London, not to regulate banks and securities brokers in an over-restrictive way.

Treasury officials are planning a preamble to the Financial Services Bill, which will transform the current SIB into a new, "super" SIB, setting out formally that it is not expected to prevent all bank failures.

Officials are concerned that growing political and public pressure on the Bank of England in prominent cases of banking scandals and collapses could lead SIB to be over-cautious and to stifle legitimate financial risk-taking.

The 1987 Banking Act, the last legislation to cover banking supervision, did not include any explanation of the principles underlying regulation. The Treasury believes this should be remedied in the bill published next year.

In particular, the Treasury wants to enshrine the principle of "caveat emptor" – or "buyer beware" – so SIB can defend its actions in cases where individuals lose money in spite of it having supervised an institution properly.

The Financial Services Act, which would come into force in full by the end of 1999, is also expected to include a clause emphasising that the regulator must try to foster conditions for financial innovation to flourish.

There has been concern among Treasury and Bank officials at the tone of some criticism of Mr Eddie George, the governor of the Bank, following banking collapses, and the difficulty of publicly defending decisions to allow failures.

However, the Treasury regards it as vital that the new SIB does not clamp down too severely on financial institutions in an effort to reduce the risk of it facing similar criticism. The preamble could at least give a formal defence.

In a speech last Thursday, Mr George warned that SIB would have to "maintain an appropriate balance between its responsibilities for protecting consumers and the need to allow competitive financial markets to breathe".

Mrs Helen Liddell, the economic secretary to the Treasury, has said the government wants to preserve a less prescriptive approach to regulation of wholesale financial markets than to regulation of companies selling retail financial products.

However, some senior bankers are concerned that the Bank's traditionally low-key and non-adversarial approach to banking supervision could disappear at the new SIB.

Campaign aims to block Oxford business school

By Richard Wolffe

Senior academics at Oxford University will today launch a last-ditch campaign to block the university's plans for a £45m ($73.85m) business school in the face of intense lobbying by the scheme's supporters.

Opponents claim the university's academic freedom will be curtailed under the terms of a £20m donation towards the business school by Mr Wafic Said, the Saudi entrepreneur.

But in the run-up to a crucial vote by the academics tomorrow, the university's executive leaders are determined to avoid a repeat of their surprise defeat by dons in November. Mr Said has threatened to withdraw his donation if the plans are not approved by Saturday.

Supporters of the business school strongly reject the fears over academic freedom, which centre around the appointment of the school's director of studies, currently Mr John Kay. The academic selection can be vetoed by a foundation of 10 trustees, four of whom are to be appointed by Mr Said.

Mr Alexander Murray, a history tutor at University College, said: "For the first time in the history of Oxford University we are being asked to give a veto of the university's academic appointments to a private group."

Senoir academics defeated the original plans for the Wafic Said Business School on the grounds that it was to be built on a greenfield site at the heart of the university. The new plans were thought to be less controversial as they site the school on a car park close to Oxford's railway station.

The business school's supporters remain confident of victory after lobbying academics on the telephone last week. They argue that a second rejection would damage Oxford's reputation and jeopardise future donations from wealthy individuals. But their opponents are adamant the university's leadership has failed to negotiate successfully the terms of the business school project.

THIS WEEK

White American male on the ropes

DATELINE

Washington: sports stereotypes in the US which keep white athletes out, also keep black players down, writes **Patti Waldmeir**

Pity the white American male: in the world of sport, he may be an endangered species. This is the high season of American sporting championships and within the space of a fortnight, ice hockey, basketball and golf have all reached their annual apotheosis. In all of them, the species is under threat: Americans bow to foreigners in ice hockey, whites to blacks in basketball, and Tiger Woods continues to steal a lion's share of the golf headlines, whether or not his performance merits it.

The team that won the Stanley Cup, ice hockey's highest honour, could boast only one player combining all three threatened attributes: white race, American birth, and sporting prowess.

The Detroit Red Wings won the cup for the first time in 42 years because of five Russians: Federov, Fetisov, Kozlov, Larionov and Konstantinov. After celebrating their triumph on Friday night, two of the Russians were injured in a car crash, one of them critically. Fans held a candle-light vigil outside the hospital, hailing the two foreigners as heroic Detroiters.

Three Swedes, a Finn and 16 Canadians complete the Detroit team. The lone white male American on the roster seems a bit of an afterthought.

The irony is that it was the Red Wings which led the charge to globalisation, in the days when the Berlin Wall still impeded the free flow of hockey players. They arranged the defection of Czech left wing Petr Klima, spiriting him away from the Czech national team during a training trip to West Germany in 1984.

Red Wings executives took Klima away in a high speed Autobahn manoeuvre, hid him for five weeks until they could deliver him into asylum at the American embassy.

Those were the days when the Red Wings had a persistent attachment to the bottom of the league table. But last week they were heroes: a white team from an all-black city, bringing home the cup.

Detroit is a place where race matters as much or more than anywhere on earth; but last week, all was forgiven. The black city mayor led a million white suburbanites in a parade to honour the home-town champions. Hockey gave Detroit a fleeting new tribal loyalty: not to ethnicity or race, but to victory.

That is the American dream: that sport is colour-blind. The reality is that American sport is mostly monochrome. Take the Detroit Pistons: they play what some call "plantation basketball", a game based on white suburbanites watching tall black men shooting hoops for money.

The term is not entirely accurate, of course: the black athletes involved are not indentured field-hands, but some of the wealthiest men in America. However it captures one of the complex truths of modern American sport: that the racial divide is as deep or deeper than ever; but that a peculiar dependence bridges that gap.

Black superstars need a white market for their sports skills and their sponsorship contracts; and white kids need heroes. So much the better, for race relations, if the heroes happen to be black, like basketball's Michael Jordan.

Last week, Jordan fought sickness and exhaustion to lead his Chicago Bulls to victory in the National Basketball Association championship. Slumped painfully on the bench, slouching toward the net, Jordan acted out a modern morality tale of triumph over adversity. It was sport at its best: a showcase for American values.

Ironically, the NBA championships also showed off a few particularly fine specimens of the endangered species: especially, from Jordan's opponents the Utah Jazz, the diminutive guard John Stockton.

But the Jazz are an unusual team: the only one with a starting line-up which is more white than black. Overall, the demographics of basketball are the opposite: the NBA is 80 per cent black.

Black intellectuals complain that the stereotypes which keep white athletes out, also keep black players down. "The images of black athletes that fill television screens . . . only sustain the traditional view of blacks as essentially physical and thus primitive people," says John Hoberman in his recent book *Darwin's Athletes: How Sport has Damaged Black America and Preserved the Myth of Race*.

Hoberman questions the proposition that sports can help integrate society; he says the success of black athletes sends the wrong message to black teenagers, who nurture unrealistic expectations of highly-paid careers in sport, and neglect their schooling.

But as the seasons change, so does the sporting focus: to baseball, where white male American superstars like Cal Ripken, of the Baltimore Orioles, can do much to restore the battered ego of the species.

Still, the television networks are already advertising a threat from a new quarter: from the WNBA, the new female version of the basketball league. It is a hard life for the dying breed; and getting ever tougher.

Additional reporting by Heather Bourbeau

The Monday Profile: Francesco Caio, Merloni

Whizzkid in a candy shop

If ever Francesco Caio decides to write a management guide to Italian capitalism in the late 20th century, his two jobs during the past year will give him the perfect preparation.

The 39-year-old Italian computer whizzkid has been catapulted from the hothouse atmosphere of Olivetti, the troubled information technology supplier for which he was briefly chief executive, to take over at the helm of Merloni, the family-controlled company that is Europe's fourth-biggest maker of domestic appliances under the Ariston and Indesit brand names.

The decision at the end of last year might have appeared to some observers like jumping from the frying pan to the fire.

At Olivetti – where Caio ran the company for only three months after three largely successful years in charge of Omnitel, the cellular telecoms company in which Olivetti is the main shareholder - he fell out badly with Carlo De Benedetti.

Caio finished his spell at Olivetti caught up in a company-wide investigation by Italian magistrates regarding allegations that misleading information was issued to investors.

The switch to Merloni – publicly quoted even though it is 70 per cent owned by interests controlled by Vittorio Merloni, the company chairman and son of its founder – introduced Caio to another challenging business environment.

The £16bn ($26bn) a year European white goods industry – in which Caio has never previously worked and which he cheerfully admits he is only slowly learning about– is one of the continent's toughest business sectors.

With consumer spending across the continent depressed for most of the 1990s, the industry's sales have shown no growth since 1992, with the main players having to compete harder than ever for market share.

To add to the inauspicious background, Caio has the considerable burden of entering a family company as an outsider, the chosen appointee of Vittorio Merloni who ran the business for 25 years before deciding at the age of 62 that he needed to hand over day-to-day management to a younger person.

Caio, who with his wispy beard and gangling manner looks every inch the computer boffin he once was, appears to be taking the challenges in his stride.

Since joining Merloni in January after meeting the head of the Merloni clan for the first time only two months earlier he says he has been "like a kid in a candy shop".

He is particularly enthusiastic about the latest software techniques by which washing machines can be programmed to use "fuzzy logic" to work out how dirty clothes are and adjust the washing cycle accordingly.

Caio who gained his computer science degree from the Politecnico di Milano – is similarly impressed by Merloni's computer-aided design techniques. Using methods borrowed from the aerospace industry, engineers can use "virtual imagery" to complete the designs of new dishwashers in about half the time of five years ago.

But Caio has another side, which perhaps stems from his five years in London in the late 1980s as a McKinsey management consultant, where he worked mainly in the consumer electronics, media and telecoms industries. He is intensely interested in how companies can expand and maintain competitive advantage, and how ideas can migrate between different business sectors.

In white goods – as in many areas of manufacturing technical excellence will carry a company only part of the way, he says. That means grinding out profit from reducing factory inventory and supply bottlenecks.

The white goods industry is "99 per cent perspiration", he says. "Creativity is welcome, vision is of the essence, but at the end of the day the driver is cost, cost, cost."

It is this attention to detail that has gained Caio the admiration of Joseph Bower, a Harvard University professor and an expert on the white goods business. "To make money in this industry, you've got to be disciplined in execution and Caio has the management skills to succeed," he says.

As befits someone with his business school background – Caio spent a year at Insead in Fontainebleau in the mid-1980s - he also sees the need to improve returns to shareholders.

Merloni's shares woefully underperformed the rest of the Milan stockmarket during 1995 and 1996. The message may already have got through to investors. Since his appointment, the shares have risen 40 per cent against other Italian stocks.

As for his contacts with Vittorio Merloni, Caio says the two men speak every day and are "in fundamental agreement" about most elements of how to effect the transition from a family run company to a more orthodox corporation. "He has an enormous amount of stuff to teach me and great intuition. It is a calm and serene environment."

But Caio has no illusions as to the speed with which the axe could fall. "I am confident I can make the bottom line better. If I do it, the company will flourish and I will do fine. If not, I will be out."

Peter Marsh

FT GUIDE TO:

JUNK BONDS

Why are so-called junk bonds back in the news?
European companies have revived the market. Bond issues launched since April in the D-Mark and sterling sectors have met a very enthusiastic response from investors. Bankers expect more than $1bn of new bonds before the end of the year. This amount could double next year and the total size of the market as it matures should reach upwards of $20bn.

What exactly are junk bonds?
Mention the word junk and most bankers will tactfully suggest that "high-yield" is perhaps a better description for the bonds.

They are speculative debt securities issued by companies which have no ratings from the international credit rating agencies or which are rated below these agencies' "investment grade" threshold: BBB- by Standard&Poor's and Baa3 by Moody's.

In return for the higher risk, they reward investors with margins over benchmark interest rates. An issue in D-Marks by Geberit, the Swiss sanitary company acquired by UK venture capitalists Doughty Hanson, paid yearly interest of 10.125 per cent. That compares with yields of less than 6 per cent on German government bonds.

Why do companies want to issue such bonds?
High yield bonds are one of the cheapest sources of financing for non-blue chip companies. You pay less interest than on a bank loan and you don't have to hand out new shares to potential predators. High-yield bonds can also provide the most efficient way to finance leveraged buy-outs or corporate restructurings.

Why are they described as "junk"?
The term has stuck since the late 1980s and early 1990s, when some investors in the US markets for low quality corporate debt found themselves holding almost worthless pieces of paper.

Junk bond prices fell sharply on several occasions following defaults by borrowers and panic-inspired sell-offs.

What is Europe's experience of such bonds?
Europe's only previous experience was in Switzerland, where a lively market for low quality corporate bonds was deserted by investors in the early 1990s after a number of defaults. Issuers included Polly Peck, the UK company which subsequently became insolvent, and Australia's Bond Corporation, which became mired in legal controversy.

Bankers in the present market are adamant the mistakes of the past will be avoided and they are emphasising the importance of providing detailed information to investors.

Investors will also note the status of the market makers – blue-chip investment banks including Morgan Stanley, Credit Suisse First Boston, J.P. Morgan and Merrill Lynch.

Aren't junk bonds what Michael Milken was imprisoned for?
No. Milken is credited with setting up the US junk bond market in the mid-1980s. But he was imprisoned on an unrelated charge of securities law violations while at Drexel Burnham Lambert. Bankers involved in the new European junk bond market wish to distance themselves from Milken. Many, however, profess *sotto voce* admiration for his visionary role in initiating what was to become a $220bn market in the US.

Which companies have issued high-yield bonds recently?
Geberit is widely credited with kicking off the market in March, when it launched DM160m of 10-year bonds. Exide, a leading manufacturer of industrial and automotive batteries, followed. Castle Transmission, the TV company that bought the BBC's transmission network in the UK, issued the first deal in sterling. The latest issue, again in D-Marks, was by Impress Metals, one of Europe's largest aluminium packaging companies.

How do investors deal with the risk associated with these instruments?
There are ways to reduce the risk of default through diversification. The theory is that by holding a very diversified portfolio, the effects of one – or a few – borrowers defaulting are minimised. Studies by banks and rating agencies have shown that in the past the extra yield offered by these bonds has more than compensated for the amounts lost through defaults. The trick is to hold many different bonds, so that when one borrower misses a payment, the loss amounts to a very small proportion of the portfolio.

Then surely, it must be easy to make money on junk bonds?
In theory. In practice, the necessary diversification requires huge amounts of money. That makes the market only accessible to large institutional investors. In Europe's fledgling market, there are too few issues to allow effective diversification.

Investors in the handful of existing deals have to dedicate great effort to analysing the companies that issued the bonds. In the future, if the market's growth continues, it is likely that specialised high-yield investment funds will be set up.

What effect will European monetary union have?
European bond traders make most of their profits by exploiting differences between interest rates and currency levels across Europe.

In a single currency environment, the main source of bond trading profit will be from differences in the credit (or risk) quality between bonds. Junk bonds are expected to flourish.

Samer Iskandar and Edward Luce

Peter Norman · Economics Notebook

German tax grail recedes

Reform of the system has become mired in endless discussion

The German government's drive for a far-reaching reform of the country's income and corporation tax systems is turning out to be a cautionary tale of hope over experience.

When in January Theo Waigel, the finance minister, launched government plans for radical cuts in tax rates that would be largely financed by a broadening of the tax base, hopes were high that they would provide a supply side boost to the economy and give Helmut Kohl's coalition a political shot in the arm.

The tax reform is being examined by the Bundestag's finance committee in preparation for its third reading by the lower house at the end of this month.

It has become mired in seemingly endless discussions that have involved the opposition Social Democratic party as well as the coalition partners comprising Kohl's Christian Democratic Union, Waigel's Christian Social Union and the small tax-cutting Free Democrat Party.

A succession of proposals and counter-proposals, including reform blueprints from the SPD and opposition Greens, have left the public, businesses and commentators confused and convinced of only one thing: that tax increases are more likely than a simplification of the system and a substantial net easing of the tax burden.

When presenting his plans, Waigel spoke of DM30bn (£10.6bn) of net tax cuts from January 1 1999 and a sharp cut to 39 per cent from 53 per cent in Germany's top income tax rate. Since then, unemployment has soared and estimates of tax revenues have been revised downwards, forcing the coalition parties into fraught discussions about how to fill gaps of DM20bn to DM30bn in the federal budgets for this year and next.

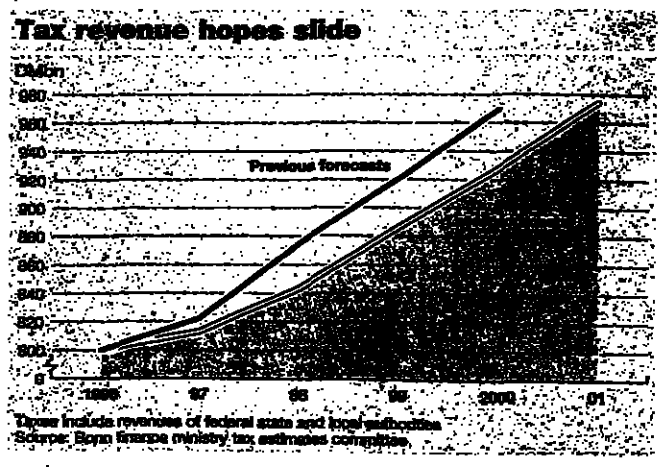
But undeterred, leading politicians have held to the grail of tax reform and its supply side promises. Wolfgang Schäuble, the leader of the CDU/CSU MPs in the Bundestag, this month outlined a scenario in which the government would privatise vigorously during the next two years as a "bridge" before the rewards of an improved tax and social security system flowed back as increased revenues.

When a serious politician like Schäuble holds out such hopes, it is time to take a closer look at Germany's fiscal predicament and other countries' experiences with tax reform. The result is sobering.

Germany's tax reform plans have been under a cloud since last month when the Bonn finance ministry's tax estimates committee forecast a DM18bn shortfall in expected revenues for the federal, state and local authorities this year, and shortfalls of more than DM30bn in 1998 and the two following years.

The expected revenue losses were notable for being set in the context of continuing economic growth with nominal gross domestic product expected to rise by 3.5 per cent this year, between 4 and 4.5 per cent in 1998, and by 4.5 per cent annually in 1999 to 2001.

There had already been some erosion of the close relationship between the growth of the economy and tax revenues. Hermann Remsperger, chief economist of BHF-Bank in Frankfurt, points out that the share of tax revenues in GDP fell from 24.5 per cent in 1992 to about 23.2 per cent last year despite numerous tax increases since German reunification.



However, the latest tax estimates came as a shock. Special factors were partly to blame. Germany's recovery is export-led and has contributed little to VAT income. Rising unemployment, low consumer price inflation, and modest wage settlements have depressed revenue from income tax.

It is unclear how far tax revenues will bounce back. Germany's high tax rates have almost certainly influenced tax payers' behaviour, giving a spur to the black economy and encouraging large corporations to shift some tax liabilities to subsidiaries abroad.

Andrew Dilnot, director of the Institute of Fiscal Studies in London, warns that it would be "very foolhardy" for a government to build hopes of returning to a sustainable fiscal base on assumptions about the impact of future tax changes on developments in the economy and peoples' behaviour.

Britain's supply side tax reforms in the 1980s may have spurred some individuals to greater effort and have contributed to a favourable environment for inward investment. But, according to Dilnot, there is no evidence that they boosted the UK's long term non-inflationary rate of growth and its capacity to generate tax revenues.

Schäuble's vision of a secure fiscal landfall at the end of the privatisation bridge could therefore be an illusion.

Moreover, it is increasingly uncertain whether the Bonn government can push through a tax reform worth its name. Supply side tax reforms are expensive. In a democracy, it is necessary to have more winners than losers. Vested interests need to be bribed rather than persuaded to give up privileges.

British experience in the 1980s suggests that the shift to lower tax rates and a broader tax base requires a strong executive or a buoyant economy and preferably both.

Such conditions enabled the Thatcher government to cut tax rates in the years to 1988. In the late 1980s, before the UK economy was derailed in an inflationary boom and bust, Britain was paying off debt rather than borrowing.

By contrast, the present German government is a vulnerable coalition presiding over fragile public finances. It has become clear that Waigel's promise of DM30bn in net tax cuts was based on optimistic arithmetic.

Germany's political parties have very different ideas on taxation, making the government's belief that it could secure parliamentary approval for its reforms against the will of the Bundesrat – the opposition-controlled second chamber in Bonn – appear quixotic.

Some tax changes are almost certain to emerge from the present haggling and some may be implemented as soon as 1998. But they will not be the promised "reform of the century" that would help cut Germany's record unemployment of 4.3m.

Tony Jackson on the art of getting value for money from management consultants

Let the buyer beware

Management consultants are good at telling you how to manage your business. But how do you manage them? How do you ensure they fulfil their promises and give you value for money?

We put the question to a group of senior managers (see below) from big US companies at a round-table discussion in New York. All had used consultants, and some had consulting experience. All agreed that consultants could be immensely useful, but needed careful handling.

Q: In general terms, when and why do you find yourselves using consultants?

Bohlen: There are three areas. One is to verify what's going on in the marketplace, and where you stand in benchmarking terms. The second is filling in holes or expanding your bandwidth. A lot of people have overdownsized and no longer have the capability to do that.

The third area is one of specific expertise, such as installing our SAP [software] project. There, we try to find the absolute best, write a very specific contract on what we want done, and when we're finished that's the end of it.

My problem with a lot of consultants is that once in the front door, they spend half their lives trying to stay there. [Also] they have a specific way of looking at a problem, and aren't willing to sit down and look at how Hewlett-Packard does a process or why we do it that way.

Q: The consulting industry has been growing at about 20 per cent a year recently, much faster than its clients. From your own experience, do you think that will continue?

Bohlen: I think so. Besides projects like SAP, another factor is fierce competition in the global environment. A lot of companies – and I'd include HP in this – were very US-centric until a few years ago. They had very little understanding of the global approach to things.

Q: Can companies come to rely on consultants too heavily?

Darien: I saw one almost take over a part of Merck. It was frightening. You couldn't tell the employees from the consultants.

Barron: I'd say the client is ultimately responsible [for that]. I've never met a quality chief executive or group president who defaulted to consultants. If he did, he couldn't, by definition, have been a terrific executive.

Huels: I agree. Consultants want to make money like any other company. You have to watch out for that and control it. You have to sit with them, sometimes on a daily basis, and insist they do it your way.

Another thing we've learnt is how to accumulate the knowledge in our own people. So I'm slowly starting to use our people as internal consultants, which is cheaper. More important, our people listen more to their own people. The word "consultant" has become negative.

Q: Why?

Huels: Sometimes there's an attitude problem with very young people making a lot of money. And they tell older people who've worked for 20 years how to do it.

Maybe also it's because consultants explain things to senior management which people in the organisation already know. They told their middle management the same story, but middle managers didn't listen or blocked it, because they were afraid for their jobs.

Bohlen: I really believe in the concept of knowledge transfer. If I pay to bring those people in, I don't expect them to leave without having transferred their knowledge to my people so that they can move forward.

Q: How do you check that?

Wulff: Disengage the external consultants before the project is done, and let the internal people carry on the activity.

Bohlen: If your people know they're going to have to carry on the project, and they don't feel good about the knowledge transfer, they're going to let you know real fast.

Q: And how do you tell if you're getting value from a project as you go along?

Huels: You agree on deliverables, on milestones and timeframes. My habit is to step into the meetings. Be very clear that it never becomes a consultant project. The project leader is always somebody from our side.

Q: A lot of consultants prefer to be paid by results – for instance, as a proportion of savings achieved. Does that appeal?

Huels: We've discussed incentive payments, and we get some offers. But the danger is if you agree to pay 30 per cent or 40 per cent of savings, then they take over. They push it through, they leave, and then it falls apart.

Darien: At first blush, it looks attractive. If somebody's going to re-program your phone network and you're going to save so many dollars, they can get paid by how much they save.

But if you're dealing with less specific things, there's an incentive for them to start tearing things apart. You may not find out till three years later that what they did was great in the short term, but is going to cause holy hell further down the road.

Barron: Incentive stuff has been around for 50 years, in the form of factory-based work: figure out the workflow and chop heads. That's a pretty seedy side of the consulting business, and I could name you some firms that practise a nicer version of it. But the real value-added incentive stuff requires enough control to deliver the goods.

Q: How many consulting firms do you use?

Barron: In D & B at any given time there might be 50 firms. But we're a 70,000-employee company. You're talking multiple functions, 25 subsidiaries, big change programmes, trivial change programmes.

Darien: I would be willing to wager $10,000 that there is no CEO who knows all the consultants that are kicking around his company. It's just impossible.

Bohlen: I'd agree. At any time, we've got God knows how many consultants wandering around. But one benefit of our shared services is that, for the first time, we can tell how much we're spending by vendor.

Wulff: We track worldwide spending as well. Admittedly, in some cases that may be somewhat after the fact.

Q: How well do consulting firms run themselves?

Barron: I think there's a big difference today with the major firms. The information flow is now technology-based and global. McKinsey knows as much in Tokyo about how they do XYZ-type projects as they do in New York.

A decade ago, it was all in the heads of individuals. The only way Boehringer, say, got good service from Price Waterhouse was for Price Waterhouse to get the right people in a room, find the last 10 reports and noodle around. It wasn't very productive for the client.

Q: Does the way they run themselves have something to teach you?

Bohlen: Some people in the industry feel that, and they're the ones I have the sharpest difference with. When it comes to re-engineering or installing SAP, the part they really miss is the amount of effort, human sweat and tears and handholding it takes to make these things successful. Nine out of 10 of them don't have a clue.

Q: How can they do their job better?

Wulff: This may be a little unfair, but my sense is that in terms of running their own shops, they could be a little more focused on managing costs.

Huels: Partly, you can control it. We've had consultants who went to the most expensive hotels and rented big cars. But you have to discuss this upfront. Are you prepared to stay in this hotel, use this car? Take it or leave it.

Barron: But one of the troubles a large firm has is that its economic model requires that each of the players generates a lot of revenue. The top 20 have a preset model of how they do things, and that relates to cost. [It's] hell breaking them out of that.

Q: Has your experience of consultants improved over the past five years? Do they give better value or worse?

Darien: That depends on the learning curve of the client. I've gotten better value, and gotten smarter at working with consultants. I don't know they've necessarily become more efficient. Their job is to generate billings, and they'll generate as much as they can.

But it's buyer beware. It's the responsibility of the client to manage the consultant. A novice customer probably gets billed more than a knowledgeable one. But maybe that's no different than any other business.

The participants

- **Tom Barron** Vice-president, shared services, with the media and financial services group Dun & Bradstreet. Formerly with McKinsey
- **Kemp Bohlen** Vice-president, shared services, with the electronics group Hewlett-Packard
- **Steve Darien** Former vice-president, human resources, with the drug company Merck. Now president of Darien Associates, consultants
- **Holger Huels** US chief financial officer of the German chemicals group Boehringer Ingelheim
- **John Wulff** Chief financial officer with the US chemicals group Union Carbide. Formerly with KPMG

Meeting arranged by Bob Gunn of consultants Gunn & Partners

The Mortimers: 'We rarely discuss business at home'

PARTNERS

Angela Mortimer

Angela Mortimer and her husband John, both 51, started their secretarial recruitment business in 1976. In 1993 they bought Pathfinders, an agency specialising in media recruitment. Angela Mortimer plc now has nine offices throughout the UK and one in Paris. Annual turnover is £18m.

Angela: "When we started the business I didn't want to be self-employed. I'd previously worked as a primary school teacher, then a recruitment consultant, so I'd been used to drawing a salary. To psychologically prop me up, John gave me a cheque at the end of each month.

He also gave me a good piece of advice, which was: 'Men just talk louder, which doesn't mean what they say is any more valuable.' Knowing that gave me a lot of confidence in the early days. John's still my guide and mentor, the provider of company strategy and the one who looks after the accounts. It's fortunate that he excels in the areas that leave me cold. I find dealing with money very dreary, I'd much rather be in midst of the office mayhem.

When we opened, no one in the market was offering any kind of career counselling for secretaries. These were women who could make a real difference to a company, yet they were treated as if they didn't matter. The majority of high-street agencies would send them for one job interview and if they didn't like it, tough. We send our candidates to at least five interviews and spend time discussing the pros and cons of each job.

The majority of employers want their secretaries to be efficient above anything else. Occasionally we get the odd quirky requirement, like the boss who only wants staff shorter than himself. If I know a good secretary who is 2ins taller I tell her to sit down quickly. Being successful in this business is about being good at psychology."

John: "I made a deal with Angela that if I set up the infrastructure and she did the recruitment, we'd end up with a successful company. I planned to carry on with my own carpet-cleaning business and do her accounts on Saturdays, but within months I became totally immersed.

She quickly built up a reputation for getting it right first time. She's very insightful, both with the client and the candidates. She's also courageous, in that she's not frightened to ask for people's time, no matter how important they are. She makes them sit down and say exactly what they want.

Most English people aren't developed when it comes to ambition. You can tell them they can be successful, show them how to do it, yet in the end they won't be bothered. Angela's one of the those people who says: 'Yeah, I'm going to do that,' and gets on with it.

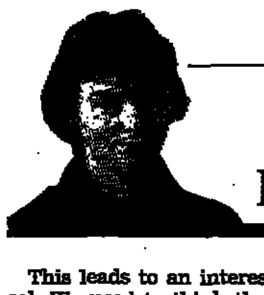
I couldn't imagine going home to a wife who asked about my day at the office, I'd find it a real pain. I want her out there, doing things with me.

The thing we have to be most careful about is communication. When you work together there is a tendency for laziness to creep in, not only between us, but with the staff. They assume that we discuss everything that happens at work.

We rarely discuss business at home because a one-to-one meeting with Angela wouldn't be cost-effective."

Fiona Lafferty

Why bad management is all in the genes



Lucy Kellaway

Are you oblivious to other people's feelings? Slow to realise that your colleagues are upset or angry? Unreasonable? Always interrupting conversations? Do you have difficulty following commands?

If you answer yes to much of the above, there is no need to feel bad. The chances are that you are a bloke, and that you can't help yourself.

Thanks to scientists at the Institute of Child Health, we find that there may be a special gene that controls "social cognition" – which is switched on in females and switched off in males.

If there is any truth in this, it seems that they may have inadvertently stumbled on the management gene. The unfortunate behaviours outlined above, found to be more common among boys than girls, are almost exactly the same ones that trendy management books argue are most likely to ruin a manager's career. What the scientists call "social cognition" is similar to what Daniel Goleman has famously labelled "emotional intelligence". It is supposed to be precisely what is needed if you want to succeed.

This presents a puzzle. If these skills are *the* crucial ones, and if they are more common in females than males, one wonders why it is the males who are at the top. It is possible that these traits are only recently in such demand. In the old days of grand hierarchies they may have even been a handicap. On this argument it is no coincidence that women are now catching up. According to a survey published today by the Institute of Management, the numbers of women in management are rising at all levels, and their pay is going up too.

But when you look at these women, doubts arise. They seem no better at "social cognition" than men in similar positions.

This leads to an interesting reversal. We used to think that men and women were born the same, but that society taught the girls to be sensitive and intuitive. Now it seems that women may be born with an advantage, but that those who climb the greasy pole – erected by males in the days of male dominance – unlearn the very skills that they will need if they plan to stay at the top.

Performance-related pay has been a failure. It makes people resent their colleagues, it demotivates them, it causes their work to deteriorate because it makes them put all their energy into hitting the performance target rather than doing the job in the best way they can. Test after test has shown this to be true.

We also know that money is a bad motivator of people. It encourages them for only a short time, and ever-increasing sums are needed to achieve the same effect. It also undermines the whole point of teams: how can you work together when every man is for himself?

Last week's London School of Economics report on performance related pay at the Inland Revenue said all of this again, but with some hard numbers attached – two-thirds of Revenue staff were more unwilling to help each other than before.

With results like these you might have thought companies would be dropping these schemes with alacrity. Instead, some organisations are still putting them in, while others are tinkering with existing schemes.

Not only would dropping them altogether improve motivation at a stroke, it would save on all that expensive admin. One wonders whether companies' stubborn persistence has anything to do with the fact that to abandon performance pay for the rank and file might focus attention on the rather more lucrative performance pay offered to people at the top.

The average office memo or business letter makes painful reading. But now a new book promises to get us all writing beautiful business prose in no time at all. *30 Minutes To Succeed in Business Writing* is full of advice with which it is impossible to disagree.

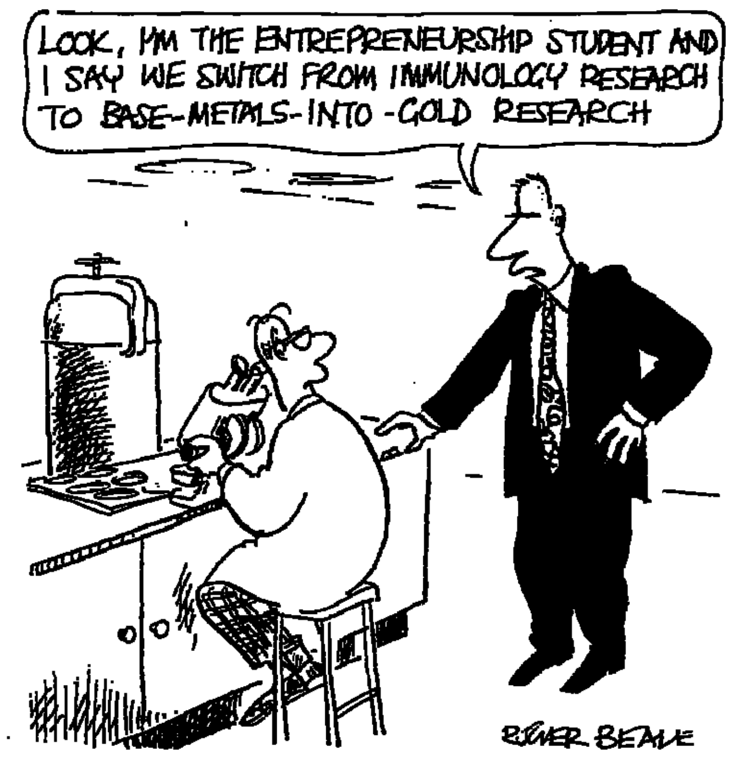
The most common way of ending a sentence, the book tells us, is with a full stop. It goes on to add that a question mark can also be used, although this is only recommended when the sentence contains a question.

The publisher, Kogan Page, is being a little optimistic. When people have failed to learn these things in their lives so far, the chances of picking them up in 30 minutes seem slim. But the book raises a more intriguing question. If managers have not heard of full stops, how on earth did they get to be where they are? By being socially cognitive, one supposes.

BUSINESS EDUCATION

John Authers examines a novel scheme which gives business students the chance to be real entrepreneurs

California dreaming



UCLA's Anderson School of Business has decided to stay close to home when its entrepreneurship MBA students find work experience placements. Mostly, they just stay on the Los Angeles campus and help the university's scientists develop their research for the private sector.

This is thanks to an innovative scheme, now in its second year, which the university originally adopted in a bid to solve the problem, common to higher education throughout the world, of retaining academic scientists who have commercially viable research.

Often scientists who have no great desire to run a company find they are virtually forced out of a university if they want to develop an invention. The only alternative may be for the university to sell the rights.

UCLA's Ventures programme allows its researchers to develop entrepreneurial plans, from which they can personally benefit. But they must use students from the entrepreneurship course at the business school, most of whom already have several years' experience running small companies.

This had appeal for the academics. Asim Dasgupta, a professor of immunology who had discovered an antiviral agent for use against hepatitis A and C, put it this way: "We were being offered bad deals, and the next phase of the work is something we could easily do, so why give it up?"

The germ of the Ventures idea came from the business school. "The real genesis came from the fact that I have very entrepreneurial MBAs, and if I saw another tacky restaurant scheme I was going to scream," says Alan Carsrud, director of the programme.

Now, the programme has extended to cover 75 MBA students, on secondments lasting from six to 18 months, working out business plans and readying companies for the market.

This is a specialist task. According to Carsrud: "It's not like we are trying to reinvent the infrastructure which is already there. We are trying to fit the gap between the idea and convincing someone to put money in it."

Working on the programme helps students amass credits towards their MBAs, which ensures loyalty. It also means they will soon be available for the job market – about half of those who have taken part so far have been offered jobs with their partner company.

Academic foundations have already provided the money to allow them to work on a fully paid basis through university vacations.

Students are chosen and allocated to a company the year before they start. The Ventures programme itself uses a rotating staff of MBAs, so that it does not need high overheads.

The programme has also made it possible for UCLA to systematise its efforts to profit from research. Previously it lacked the manpower to determine the potential of every piece of technology which emerged from its laboratories.

Using higher education to nurture start-up companies is not a new idea, particularly in the high-tech sector. Commercialisation in the UK has seen most universities branch into technological and management consultancy, while the concept of science parks near big universities is also well established.

However, Carsrud describes these parks as "real-estate ventures", and he suggests that UCLA is going further in the continuity of the business support it provides. The presence of the business school also helps to ensure a reasonably constant personnel.

Most of the companies set up under the scheme so far are based on medicine and biotechnology, like Dasgupta's Virasim. This is in line with UCLA's traditional specialisms, producing therapeutic drugs or offering test services for life-threatening illnesses.

But the idea is spreading beyond sciences. The Ventures programme is now working on The Virtual Archaeologist, which allows its users to make archaeological excavations using nothing more than interactive technology.

NEWS FROM CAMPUS

Investment in Chinese success

With the re-accession of Hong Kong to China, many multinationals may be considering the best way to invest there. With this in mind, IMD is running a one-week course in Beijing and Shanghai in October designed to focus on the distinctive features of doing business in mainland China.

The programme, which will be conducted in English, will look at marketing, manufacturing and managing money flow in China and will include company visits.

IMD: Switzerland, 21 618 0111

How to master consulting skills

A masters degree which has been developed by consultants for consultants will be offered by Ashridge Consulting, the consulting arm of Ashridge management college. The first course will begin in September this year.

The MSc in organisation consulting is a two-year, part-time course with an 18 month taught element and a six-month period allocated for research and a dissertation.

The degree is designed for people with experience in project management, internal or external consultancy or change management.

● Ivy Madungandaba, a mother of four from Atteridgeville, South Africa, has won the Ashridge Walter Sisulu Management Prize and has started a four-week course of study at Ashridge. Madungandaba has worked for Mjangs Investment and taught business economics at Saulridge High School.

Ashridge: UK, (0)1442 843491

Two degrees of high esteem

Eddie George, governor of the Bank of England, and Sir Colin Marshall, chairman of British Airways, have been awarded honorary degrees by Cranfield school of management.

The degrees of MBA Honoris Causa were awarded in recognition of the men's work in banking and business.

Cranfield: UK, (0)1234 754 348

MARKETING

A change of atmosphere for advocacy

Labour's victory has transformed political lobbying, says **Alison Smith**

For Fred Silvester, managing director of political lobbyist Advocacy, the MPs' votes on banning handguns are the latest round in his campaign against gun restrictions. He has been waging it since his company was appointed by the British Shooting Sports Council.

Firearms legislation has been a high-profile issue for more than a year, but Advocacy has had to move swiftly in response to the speed with which Labour introduced a bill into the House of Commons.

"We have been briefing people and preparing amendments," Silvester says, "but we would rather have had more time to talk to people in the middle ground, because it's quite a complicated matter".

The pace of announcements and action is just one of the ways in which last month's Labour landslide has changed the geography of political lobbying, which is already estimated to generate more than £35m ($57m) a year in fees.

The torrent of government business has been good news for lobbyists. As Sir Tim Bell, chairman of Chime Communications which owns Lowe Bell Political, said recently, an active, busy government means work for government relations businesses.

But the spate of activity has also created problems for businesses and other organisations seeking to influence government policy. "In these first weeks there has been some difficulty in establishing contact, because government members are keeping their heads down and learning the job," says Damian Leeson, head of public affairs at Prudential, the UK's largest life assurer. The Pru's chief executive – Sir Peter Davis – has just been appointed to head the government's welfare-to-work task force.

Many lobbyists believe this businesslike attitude indicates a broader change already leading to a downgrading of the social contacts that have previously been part of government relations. "They don't have time for the PR aspects of lobbying, the lunches and dinners," Leeson says. "They are happy to meet only when there's a real agenda."

"Treat MPs with whom you are unfamiliar as you would civil servants: no entertainment until the relationship is established," is how the Public Policy Unit, a lobbying company, is advising its clients. It says that many Labour MPs are suspicious of invitations to events such as the Wimbledon tennis championship that they might have to declare in the Commons register.

Together, the new mood and the restrictions which the recommendations of the Nolan committee have put on the ability of MPs to act directly in presenting an argument at parliament make lobbyists' work at Westminster more difficult. So too does the number of unknown quantities among the new intake, some of whom surprised even themselves by getting elected.

All this makes it fortunate for lobbyists that the scale of Labour's majority – 179 – has shifted the focus of their attention back towards the civil service.

"In the previous five years, the narrowness of the government majority meant that you needed to convince only a finite number of backbenchers in order to make ministers think twice," says Edward Bickham, head of public affairs at Hill & Knowlton, a public relations company. "Now, Whitehall has probably become more important again in the balance with Westminster."

He adds, however, that political lobbyists will still have to identify new Labour MPs who prove themselves particularly knowledgeable or thoughtful in certain policy areas – not for their impact as backbenchers but because they are likely to become ministers during the course of the parliament.

"It's very unlikely that Labour MPs will give the government a hard time," says one lobbyist, "so in general if you want to change ministers' minds about a policy you'll have to do it early".

Operating in the context of a powerful executive is familiar territory for lobbyists who were in business during the Thatcher administration in the mid-1980s.

But they say that the technique for dealing with the new government in Whitehall is not simply a matter of reviving the way they worked then.

Charles Miller, a director of the Public Policy Unit, believes that a critical change is the greater prominence and range of special advisers, as ministers are determined not be captured by the civil service machine.

"These advisers are not being relegated to speech-writing, they are performing a more influential policy role," he says.

Another aspect of ministerial caution about the civil service after 18 years in opposition – and one making lobbyists' work easier – is the government's readiness to listen to opinions from beyond Whitehall.

As opposition politicians challenging the last government on complex areas of policy, new ministers relied on the perspectives provided by industry, think-tanks and others. "I think there is a greater openness to outside views, at least for the first couple of years," says Bickham.

The torrent of government business has been good news for lobbyists. As Sir Tim Bell, chairman of Chime Communications which owns Lowe Bell Political, said recently, an active, busy government means work for government relations businesses.

Winston Fletcher · Commentary

Persuaders step out of the closet

Tonight, in a House of Commons committee room, the Institute of Practitioners in Advertising is sponsoring a debate on the motion "that advertising shapes society more than politicians".

The motion's meaning is – to put it kindly – a mite ambiguous. Nonetheless, the proposers will have a tidy battle on their hands. In the run-up to the UK general election on May 1 the two main parties spent some £20m ($32m) on advertising between them – Labour £7m, the Tories £13m. And it would be difficult to show that either campaign had any effect.

While the political soothsayers examined the entrails of each new advertising burst, day-by-day pronouncing this one brilliant, that one an utter dud, the opinion polls hardly twitched. The electorate had plainly decided, early on, that the hype and hullabaloo were just hogwash.

Worse still, the unusually low turnout proves the campaigns failed even to persuade people to pop into their polling station. Whether or not advertising makes smokers smoke, it palpably doesn't make voters vote.

If the most expensive campaigns in Britain's electoral history achieved so little, what – to get back to tonight's debate – does that say about advertising's power to shape society? Like most modern media, advertising is constantly attributed with either massive or minimal influence on society. The truth is more complicated.

Not that advertising has always been seen as potentially potent. This year is the 40th anniversary of the publication of a pot-boiler called *The Hidden Persuaders* – still the most famous book about advertising ever written.

Before *The Hidden Persuaders*, people saw ads for what they are: enthusiastic and occasionally overzealous sales puffs. *Persuaders* imbued advertising with new and sinister, if illusory, omnipotence.

Written by Vance Packard, an American journalist, *Persuaders* was packed with anonymous case histories from unnamed sources. Most of Packard's facts could be neither corroborated nor contradicted, so he was able to dispense allegations with insouciance. But his timing was perfect.

In the 1950s, as the western economies recovered from the second world war, advertising returned – not with a whimper but a bang. Commercial television arrived, newspapers and magazines grew fat with ads, billboards flourished, new products were launched with whopping budgets, branded goods flooded the shops and – most important of all – politicians began to use advertising in a big way.

All of which gave thinking people much to think about. Advertising's powers seemed limitless. And it scared people. Packard exploited their anxieties. He invented a Machiavellian monster which could make people buy things they didn't need, didn't want, and were often downright harmful.

He claimed that advertisers can and do use psychoanalytical methods to control behaviour. To quote the blurb: "The frightening processes evolved and applied by super-advertising scientists are having an increasing effect upon their potential victims".

Persuaders immediately became a mega-seller. During the last 50 years it has been mega-influential. It might not have been half so successful, however, had the leading admen of the time not embraced Packard's attack with masochistic zeal. It suited their commercial purposes because it helped them convince sceptical clients that their campaigns were now scientific.

Admen were no longer mere hucksters. They were movers and shakers, the moulders and shapers of modern society.

It's mostly codswallop. Far from being deep and devious, most ads are as obvious as a pedlar's patter. But that isn't to say that advertising isn't enormously influential.

It is unquestionably the most cost-efficient way for most companies to win customers. So advertising helps companies grow.

It fuels the development of multinational brands, and so enhances world trade. It generates profits and hence investments. It informs consumers of the overflowing cornucopia of goods and services now available, so they can make up their own minds how to spend their dosh.

To do all those things advertising has to be persuasive, very persuasive. But in no way is it hidden.

When the impoverished crowds clambered over the Berlin wall, it was not to engage in philosophical disputations about life, liberty and the pursuit of happiness. They risked their lives in order to obtain as many western consumer goods as they could lay their deprived hands on. Goods they had – doubtless illicitly – seen advertised in western media.

In any economically free society, advertising appears to be an essential magic ingredient. There are no such societies without it. Like oil in the engine, its role is modest - but vital.

Winston Fletcher is chairman of Delaney Fletcher Bozell.

MARKETING / ADVERTISING / MEDIA

Kevin Roberts: dissatisfaction with doing everything on the cheap drove him from the consumer goods manufacturing business

'Sports nut' enters ad jungle

Saatchi's fresh chief in New York has a game plan, says **Patrick Harverson**

Ask Kevin Roberts why he was appointed as the new chief executive of Saatchi & Saatchi Advertising Worldwide in New York, despite having no working experience within the advertising industry, and he replies, with a broad grin: "Because I was cheap."

He is only joking, but it was Roberts' deep dissatisfaction with the industrial world's emphasis on doing everything on the cheap, on pushing down costs no matter what, that drove him from the consumer goods manufacturing business – his last job was as chief executive of Lion Nathan, the New Zealand brewing group – into the welcoming arms of advertising.

"Over the past two years there has been too much focus by chief executives on the idea that being the lowest cost producer is a competitive strategy," he says.

Consumer value and high brand equity are the keys to success in modern business, Roberts believes, not slashing costs and laying off workers in a frenzied dash for improved short-term profitability.

How he moved from the brewing industry into advertising is a complicated story, but the long ties he had built up with Saatchi through his years as a senior executive at Procter & Gamble and Pepsico meant Roberts was well-known among the agency's top management.

That said, he was not sure at first whether he wanted the job when Ed Wax, Saatchi's chairman, approached him earlier this year.

Having left Lion Nathan in November, Roberts was happy in New Zealand with a variety of new interests: teaching business management to university students, owning Auckland's best restaurant, and – favourite of all – working as a director of the New Zealand Rugby Football Union and on his fledgling sports marketing business.

(The 47-year-old Lancastrian is a sports nut: he played top-level rugby for many years, loves tennis, and is a passionate, if often frustrated, Manchester City fan.)

The idea of giving up the good life to enter the corporate jungle at Saatchi's parent group Cordiant – with its unhappy three-way marriage of Saatchi, the US ad agency Bates and the Zenith media buying business – was hard to comprehend. Playing corporate politics and handling the day-to-day financial management within an integrated media and marketing group did not appeal at all.

But when he learned Cordiant had decided to de-merge and to float its three core businesses, Roberts accepted the opportunity to run the Saatchi global network, reporting directly to Bob Seelert, who would be chief executive of the separately listed Saatchi group.

"My interest in Cordiant was quite limited, so I was really excited by the demerger," he says.

Although the agency had been bruised and battered in the aftermath of the painful split with the Saatchi brothers in 1995, Roberts says he has not been brought in to fix something that is broken. "We're like a duck. On top of the water, it has taken a few potshots, but under water the feet are still paddling like hell."

Reaching for one of the many sporting analogies that pepper his conversation, he says he sees his job as a coach hired to help Saatchi play better as a team.

He intends to achieve his aim of making Saatchi the "hottest ideas shop on the planet" by focusing on the four tasks that all sports coaches face: setting strategy; picking the right team; studying the opposition; and developing tactics.

The focus throughout will be on "imagination and insight", and building the Saatchi brand, he says.

More people will be hired to work on the creative side, and there will be more planning and research into clients' businesses. And success will be measured in what Roberts cutely calls "PICs": "Permanently Infatuated Clients."

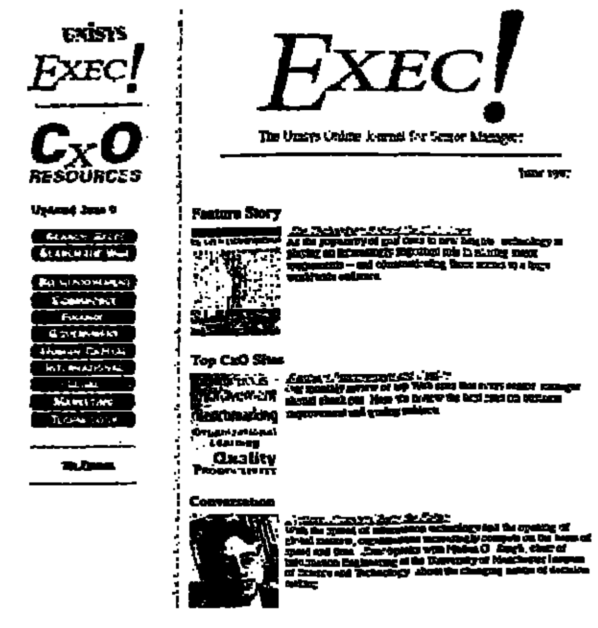
Although he has earned a reputation as an unorthodox, at times slightly wild, manager – while at Pepsi he once rigged a Coke dispenser to explode on stage – Roberts appears to have mellowed. He no longer has time for the military metaphors he used in the days of the cola wars at Pepsi.

"You can't ask agency people to go to war. They're not that kind of people." He harks back, instead, to the time when he was asked to give a team talk to the New Zealand rugby team before a crucial test against the British Lions. "I said to them: 'You're too frightened of losing. Just go out there and express yourselves.'"

The All Blacks went out and duly won the game and the series. Cordiant must be hoping Roberts's team talks have a similar effect at Saatchi.

Website of the Week · Execmag.com

Links over par



Amid all the excitement generated by the US Open Golf championship in Washington this past weekend, Unisys, the global information management company, has translated the natural connection between golf, technology and management on to the internet.

In the wake of its excellent site following the activity at the tournament (*www.unisys.com/usopen97*), the company has set up Execmag.com, (*www.execmag.com*) an electronic "briefing book" for senior managers.

One piece deals with the technology behind covering the Open on the Web, which the company plans to continue through the US Senior Open later this month and the US Womens' Open in July.

David Curry, Unisys vice-president for corporate affairs, believes that the new generation of golf coverage sites will prove a success with desk-bound golfers.

"Our website drew more than 1m hits during the 1996 USGA championship season and we expect that this year's enhanced system will draw and handle even more," he says.

The Unisys site, taking advantage of the company's new Aquanta servers, allowed spectators to follow the progress of the Open tournament by means of a virtual scoreboard, offering a tournament overview or check on how a player was doing.

As well as an in-depth account of the technology behind Unisys' golf coverage, the latest version of Exec – which is updated weekly – also features an interview with Madan G. Singh, chair of information engineering at Umist, on the nature of decision-making.

The e-zine sets out to be a focus for the best in web-based business content, culling from a range of established sources as well as providing editorial material intended to be useful to managers.

Sections of particular interest cover topics on knowledge management, marketing, information technology and electronic commerce; and each section is accompanied by an authoritative list of links.

Stephen McGookin

steve.mcgookin@FT.com

Self-regulation key to net ads

Caroline Crawford is a pragmatist. As director of communications for the Advertising Standards Authority, she is realistic about the prospect of regulating ads on the internet, *writes Stephen McGookin*.

"The CIA and the Chinese government have been trying to regulate the Net for years. I'm not sure we can succeed where they've failed," she says.

While the ASA in the UK regulates "non-broadcast electronic media" including computer and video games, CD-Roms and the internet, the Independent Television Commission is responsible for regulation of broadcast material.

The ASA believes in encouraging self-regulation, by promoting the industry's "enlightened self-interest".

Informal approaches to companies – there are "a handful" each month – about content usually have a positive outcome. But if the ASA's approaches fail, cases maybe referred to the Office of Fair Trading for legal action.

The problems with transnational regulation were highlighted last week after a French court dismissed a lawsuit on procedural grounds. It was brought by two French language groups against the French campus of a US university, charging that the university's website was in violation of a 1994 law mandating the use of French in all sales of "goods and services" on French territory.

MEDIA

Future not what it used to be

The third annual Price Waterhouse technology forecasts for the future of the entertainment, media and communication (EMC) industries are as interesting for what they do *not* contain as for what they do.

In the first Price Waterhouse report, more than 70 video-on-demand experiments were identified worldwide. This year the subject is hardly mentioned, other than to say that the original goal of providing instant video-on-demand has been modified to offering more limited and less costly services such as near-video-on demand with movies starting every 15 minutes on an array of pay-per-view channels.

The new emphasis marks a shift towards cost-effectiveness. The big surprise of the year has been the explosive growth of satellites as low-cost, global distribution systems which provide near instant infrastructure.

Satellites leapfrog the middleman. "Wherever you are in the world, you will have . . . a broad spectrum of communications . . . from voice and data to the internet and video. [Satellite communication] truly represents a convergence of technology," says Mary Frost, managing director of EMC Price Waterhouse.

The report forecasts that the transmission of multimedia services to the home by high-capacity broadband cable networks remains hype and will not be widely available before 2000.

Much forecast convergence between the communication industries has not happened. There has been consolidation in TV, radio and satellites. In the telephone industry, companies are concentrating on going after each other's markets.

The convergence in the home between the television and the PC has also not happened. Instead old-fashioned retailing principles are influencing high-tech entertainment to form theme restaurants and Warner Bros and Disney stores.

The report forecasts that digital video disks will replace video recorders and CD-ROMs on most new computers; DVD technology will be adopted by the consumer electronics industry for video, music and interactive games; the growth of the "global mobile" executive receiving phone calls and information anywhere will be spearheaded by satellite communications.

Raymond Snoddy

Price Waterhouse EMC Technology Forecast: 1998. ($200). 001 847-918-3091

Tim Jackson · On the Web

End the World Wide Wait

The OECD's Information Technology Outlook 1997, published today, contains two fascinating graphics. One is a map of the US showing the route taken by a message sent over the internet from the head office of the Washington Post to the White House.

Instead of travelling the four blocks directly, the three "packets" of data that made up the message went three different ways – each of them via California. The result was that the messages travelled 6,000 miles.

The other interesting graphic is a chart illustrating the problems of quality of service on the internet.

Measuring traffic at some of the main network access points of the internet, it shows that for most of the first half of 1996, a quarter of all the information packets passing through were "lost" for technical reasons. The proportion of lost packets rose to nearly 50 per cent at peak time.

To anyone but an engineer, these two nuggets of information suggest the internet is a ludicrously bad communications network.

What post office in the world could get away with losing one-in-four letters? What phone company would stay in business if it routed calls from north to south London via Tehran?

But the information actually illustrates that the internet is very well designed. Instead of opening up "circuits" like the phone system, where sender and the recipient have the line to themselves even when they're not speaking, the net breaks up messages into packets and allows routers along the way to decide the best way to direct each one.

Some say one of the reasons that the network was designed in this way was that its military masters in the 1960s wanted it to be nearly immune to nuclear attack. Message packets would find their way to their destinations by whichever parts of the network had survived.

I understand that there was no such intention; but that's certainly how the network has turned out. The effect is that even with roundabout routing and with heavy packet loss, the internet still manages to deliver information extraordinarily quickly and cheaply.

Pundits have been saying, however, that the internet is in danger of seizing up altogether. But congestion by itself is not the problem.

The phone companies that provide the basic infrastructure are doing a surprisingly good job. They have doubled the network's capacity every year since 1990.

The real source of the problem is pricing: most users do not pay according to the traffic that they generate.

Even between carriers, the internet works on a "best efforts" principle – infrastructure owners do their best to carry each other's traffic, often without charge, but offer no compensation if they fail. Users have no incentive to limit their use of the network.

So a minority makes extremely heavy demands on the system's bandwidth, causing congestion to everyone else.

That is why people at home suffer the delays that have given rise to the nickname "World Wide Wait". I experienced a vivid example last week when making a presentation to a group of financial translators in Paris.

The plan was to demonstrate a Web-based translation service (*www.aleph.com*) – but the download was so agonisingly slow that I had to abandon the live demo and show stored pages prepared in advance.

This problem is easily solved. Faster network switches are coming; so are transmissions technologies like asynchronous transfer mode, which opens up "virtual circuits" between two points. Researchers have also developed ways of injecting pricing mechanisms into the internet.

One, devised by professor Jeffrey McKie-Mason and others, involves setting aside one part of the header information of each message to indicate its priority. When the network gets congested, routers carry out an instant tender, sending the high-priority packets through ahead of the low-priority packets, and charging them the "price" of the lowest-priority successful packet.

This is like the system in tender offers on the stock market, where all shares are sold at the price of the lowest successful bidder. Such systems will lead to an internet where important traffic can pay for priority – and where congestion is a thing of the past.

In the meantime? Well, website owners should remember that many of their potential users are victims of the problem I had last week.

tim.jackson@pobox.com

Rising hotel rates are prompting executives to be more creative and demanding about accommodation, say **Roger Bray** and **Gillian Upton**

A time to share

The Hotel Moskva, a short stroll from the Kremlin, is a dour place. Once the haunt of Communist apparatchiks, part of it could soon be converted into timeshare apartments for visiting executives. It makes sense.

Hotels in the Russian capital, according to one recent survey, are the third most expensive in the world. And while new hotels may bring rates down, the effects of inflation in Russia are unknowable.

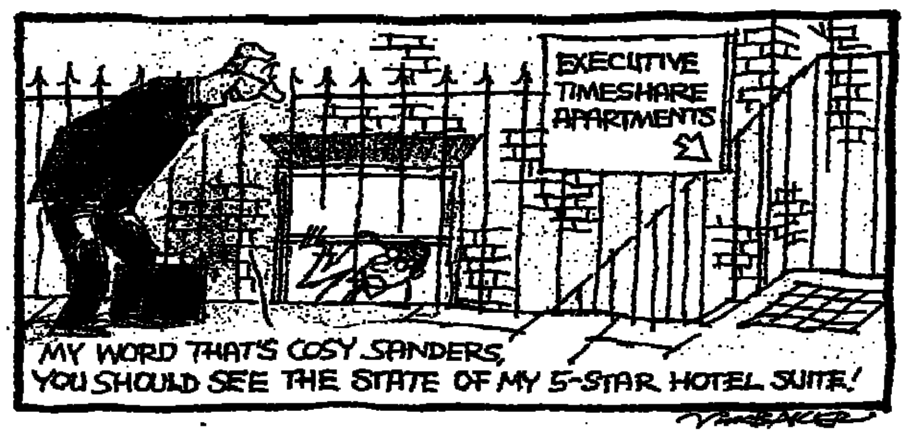
Buying accommodation this way could be a way of fixing costs. Urban timeshare for business travellers is in its infancy. In some places its advance has been frustrated by the reputation which the industry has earned selling to tourists.

But it looks certain to grow. A pointer is the growing interest of leading hotel companies. The world's biggest hotel franchise group, HFS, which includes the Howard Johnson, Ramada and Days Inn chains, recently acquired RCI, the timeshare industry's biggest international exchange organisation. As Alain Grangé, president of Vistana, a Florida-based timeshare operation says: "There isn't one major hotel chain in the US which isn't either in timeshare or isn't proposing to get into it."

These groups are already linking their timeshare operations with loyalty programmes, enabling purchasers to earn points towards free hotel rooms or upgrades, for example. Companies do not need to buy whole weeks – or even stick to the apartments they invest in. Increasingly, timeshare companies are selling nights or points which can be exchanged for accommodation around the world.

This could be another apartment or, in some cases, a conventional hotel room. Timeshares in city centres, developers claim, are particularly valuable as bargaining chips.

Take Monte Carlo, where Duminvest, part of the Lyonnaise des Eaux group, is building a 31-unit complex. The average price for one of its timeshare apartments, sleeping four people, will be FFr75,000 (£7,886) for one week – a deal which expires in 30 years. As a comparison, a first-class hotel room in the principality can cost FFr1,300 or more a night.



Timeshare is available in at least 24 cities, including New York, Boston, Edinburgh, Buenos Aires, Cairo, Kuala Lumpur, Tokyo, Seville and Vienna.

But so far not all of it is being aimed at business travellers. Those that are include New York's Manhattan Club, opening soon, and Boston's renovated Custom House, which is being marketed by hotel chain Marriott.

Another downtown development being sold to the corporate sector is San Diego's Gaslamp Plaza Suites, in the Californian city's historic district, which is pitched at visitors working with nearby law firms.

Timeshare has begun to take root in the UK with the Edinburgh Residence, a converted Georgian terrace where customers buy seven days a year, which can be used as a whole week, or as separate nights.

Managing director Brian Martin claims a discounted first-class hotel room in the city costs about £140 a night. "With us it would cost about £84."

Business timeshare is also on the point of taking off in South Africa, where hotel groups have been scrambling to cope with rising demand from tourists and business travellers after years of isolation. Corporate rates at Johannesburg's *de luxe* hotels are reckoned to have risen 20 per cent in a year.

In Jerusalem, Activity Hotels is preparing to offer 40 per cent of the 205 rooms in an $11m hotel development as timeshare. And for a fee of $50 a year, customers will be able to get 50 per cent reductions on all office services, from typing and faxing to the use of meeting rooms.

RB

Why should you pay more?

O*nly fools pay full published rates at hotels.* Does this maxim still stand? Hotels will always try to sell you a room at the highest possible rate, but this is frequently undermined by the smart independent traveller who holds out by buying late or through sheer tenacity with the reservations staff.

Cheaper still will be the corporate rate secured by travel managers, who are responsible for hundreds of bookings. This can be up to 25 per cent lower than the published rate.

So why pay the full rate? In many cases they have no choice because hoteliers are exploiting a buoyant market and have raised rates accordingly.

Hoteliers are also becoming more ingenious. One wheeze is the introduction by the leading hotel chains of the executive floor: pay a higher rate and you receive better and faster service, free newspapers, free breakfast, and separate check-in.

Some are better than others, such as the Ritz-Carlton chain's Club floors. At the Ritz-Carlton in Singapore a room on one of its Club floors will cost you S$60 (£26) more than the S$430 charged for a standard *de luxe* room. At its downtown Atlanta hotel it's a US$40 premium.

Sheraton offers Smart Rooms – offices in bedrooms across its European properties. For a £20 premium your room has a modem, fax, filing cabinet, ergonomically designed chair and working 'L'-shape desk.

Take this idea one step further and there is one hotel group, Shangri-La, with properties in China and south-east Asia, which is asking full rate in return for some real benefits.

It is available through at all 34 of the group's four-star hotels – operating under the Traders name – and five-star hotels and resorts. There are six perks, which start when you arrive at the airport with free limousine transfers.

Then there is free laundry and dry cleaning, free breakfast, free local telephone calls and local faxes, all international calls charged at cost and check-out extended to 6pm.

Ian Weatherhead, head of defence and security at the London Chamber of Commerce, is a keen believer in the scheme, spending, as he does, about 25 room nights a year in Asia. "By the time you add up the cost of all the benefits it's cheaper so it's worth paying for," he says.

However, David Witham, international hotel marketing director at Carlson Wagonlit Travel, believes such schemes are a rate rise in disguise. The cost to the hotel is very little when taking into account the lower labour costs in the region. "With hotels booming around the world, do they need to do this?"

GU

Travel News · Roger Bray

Dine on the Nile

Guests at a new hotel in Cairo will be able to dine on the Nile in a floating restaurant. The 273-room property, due to open early in 1999, will be managed and operated by the Toronto-based Four Seasons group.

Bedrooms in the main 30-story building will have views of the river, the Giza pyramids, the zoo and botanical gardens. Customers will have access to a private health club with a pool.

Four Seasons has also announced plans to open another hotel, later the same year, in Dublin, with about 250 rooms and suites.

Musical choices

Travellers flying from Toronto in Air Canada's "Executive First" cabin can now soothe away their tensions by donning headphones and choosing from a library of 200 compact discs.

Private listening stations are part of a Sony entertainment centre which opened recently in the airline's Maple Leaf Lounge at the airport. Passengers can watch videos or satellite TV on individual screens or play computer games.

Ferry facilities

A new fast ferry which is due to start operating this month between Gothenburg in Sweden and Frederikshavn in north-east Denmark, will have their a lounge for business travellers with telephone and fax facilities.

The $33m (£20m) Italian-built monohull SuperSeacat will increase capacity on the route significantly. Operated by Sea Containers, it will have room for up to 782 passengers and 175 cars.

Sol Melia growth

Spain's Sol Melia group is about to open three hotels aimed at the business market.

The first, due to start operating next month, is in the Extremadura city of Merida, with its fine Roman theatre. Its 106 rooms will be equipped with modem and fax links.

Two more are scheduled to open in September. One, with 147 rooms, is an hour's drive from Madrid in Guadalajara. The other, with 80 rooms, is at Leganes on the outskirts of the capital.

The first two hotels will be part of the company's four-star Melia Confort chain. The Leganes property will be operated under the three-star Sol Inn brand. All will offer facilities for meetings.

Sol, Europe's third biggest hotel group, will also open the five star, 71-room Melia Araguaney in Santiago de Compostela in July.

Seoul service

South Korea's Asiana has launched new services between Seoul and Frankfurt. They operate non-stop on Mondays and Thursdays. The airline has also shaken up its Vienna and Brussels operation so that flights between Seoul and both cities will all be non-stop.

Hyatt in Paris

A new Hyatt Regency hotel is scheduled to open in Paris on August 19, behind the preserved facade of a building which was part of the widespread city centre developments decreed by the 19th century prefect, Baron Haussmann.

It will incorporate a café terrace on the Boulevard Malesherbes, which runs north-west from La Madeline, and a restored glass conservatory roof from the turn of the century.

Described as a "boutique hotel", it will have 82 rooms and four suites, each with two telephone lines and computer connection ports, a business centre and two meeting rooms with retractable screens and built in loudspeakers.

Internet hotel

Inter-Continental Hotels has become the latest chain to dabble in connecting guests to the internet via their televisions, Amon Cohen writes.

It is trying two systems in a handful of properties before deciding which to install in its 140 hotels. At the Hotel Inter-Continental Hyde Park in London, guests can e-mail or surf the net with a system called ViewInn. The other system is Thorn Guestlink, on trial at the May Fair Hotel in London and the Hotel Inter-Continental Dubai. This enables guests surf by means of the TV remote control set.

Likely weather in the leading business centres

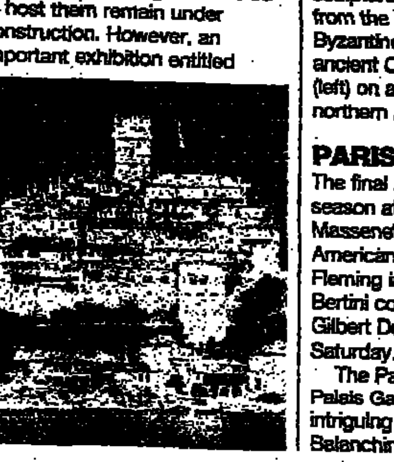
	Mon	Tue	Wed	Thur	Fri
Tokyo	26	[illegible]	25	22	[illegible]
Hong Kong	27	28	29	29	30
London	19	20	21	21	[illegible]
Frankfurt	22	22	23	24	25
New York	25	28	29	[illegible]	[illegible]
L. Angeles	24	23	26	25	[illegible]
Milan	24	[illegible]	25	[illegible]	[illegible]
Paris	21	22	22	22	22
Zurich	20	20	20	[illegible]	[illegible]

Information supplied by Meteo Consult of the Netherlands

ARTS

OPENINGS

THESSALONIKI
More than 200 events planned for Thessaloniki's year as European City of Culture have had to be cancelled, because most of the buildings scheduled to host them remain under construction. However, an important exhibition entitled



"Treasures from Mount Athos" will open as planned on Saturday at the Museum of Byzantine Culture. The 589 works on show, including icons, manuscripts, sculptures and embroidery, come from the richest repository of Byzantine art in Greece – the ancient Orthodox monasteries (left) on a remote peninsula in the northern Aegean.

PARIS
The final new production of the season at the Opéra Bastille is Massenet's *Manon*, with American soprano Renée Fleming in the title role. Gary Bertini conducts a staging by Gilbert Deflo. The first night is on Saturday.

The Paris Opera Ballet – at the Palais Garnier – offers an intriguing triple bill of. Balanchine's *Serenade*, Tudor's *Dark Elegies* and Pina Bausch's *Sacre du printemps*. It is the oddest of mixtures, but each work is fascinating.

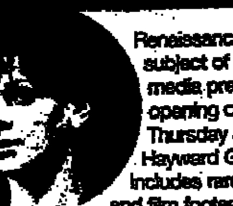
EDINBURGH
The Scottish National Portrait Gallery, working with its Danish counterpart, has arranged two joint exhibitions – one of Scottish portraits to be shown at Frederiksborg Castle in Denmark in September, the other of Danish portraits to be exhibited over the next two months in Edinburgh. "The Face of Denmark", opening on Thursday, will include 100 paintings, photographs and sculptures from 1750 to the present day.

NORWICH
The only performance of Wagner's *Ring* scheduled for the UK this year takes place over the

next two weeks at the Theatre Royal, in a guest production by Norwegian National Opera. The cycle opens with *Das Rheingold* on Wednesday and ends with *Götterdämmerung* on June 28.

LONDON
Following their success with *Skylight*, Richard Eyre directs a new play by David Hare, *Amy's View*, opening at the National Theatre's Lyttelton stage on Friday. Judi Dench and Samantha Bond (right) play the actress mother and her daughter around whose relationship the plot turns.

The City of London festival, spread around the churches and livery halls of the Square Mile, begins on Thursday with a production of *A Midsummer Night's Dream* in which Mendelssohn's music is integrated into Shakespeare's verse. Other highlights include a recital by Barbara Bonney and a chamber music series with pianist Stephen Kovacevich.



Art of the 1920s Harlem Renaissance is the subject of a multi-media presentation opening on Thursday at the Hayward Gallery. It includes rare sound and film footage of great jazz musicians, jazz-inspired paintings by Aaron Douglas and Archibald Motley (left), and a photographic record of the corner of Manhattan that became known as the "Mecca of the New Negro".

ZURICH
"Birth of the Cool", opening at the Kunsthaus on Wednesday, is a wide-ranging survey of American art in the latter half of the 20th century. Among the artists represented are Jackson Pollock, Georgia O'Keeffe, Chuck Close and Andy Warhol. The exhibition runs till September.

Musicians for the millennium

Martin Hoyle tours with the Orchestra of the Age of Enlightenment

A player's orchestra for a new Europe? The OAE, under the baton of Sir Simon Rattle

A decade ago, they were iconoclastic trailblazers in Britain's early music scene, both in their "authentic" sound and their decision to choose their conductors and eschew a permanent figurehead. Today, the musicians of the Orchestra of the Age of Enlightenment are almost regarded as Old Masters, coolly appreciated by the French, admiringly admitted to the inner circle by the Viennese and greeted uproariously like old friends by the Spanish.

Tomorrow's concert in the Queen Elizabeth Hall marks the end of a whistle-stop European tour for the orchestra, under the baton of Sir Simon Rattle. In the orchestra's second decade, the loyal core of founder-members is now the establishment, as orchestral manager Philippa Brownsword acknowledges. "We have a challenge to keep fresh for the next 10 years. People still expect us to be wildly, wackily exciting. There's a small number of very brilliant young people, lots running their own groups, and we've had to tempt them away," she says. "We're big and successful, no longer experimental." Brownsword regards the challenge of identity as a positive stimulus. "We can't be Florilegium (the talented young Baroque group). We have to be brilliant in a different way."

This mixture of individualism and discipline appeals to discerning sponsors. Goldman Sachs is currently endorsing its second European tour for the OAE. Janet Reeve, the orchestra's director of development, appreciatively notes that the company is not among those which go "only for institutions established for 50 years with 'Royal' in the title." It "likes the idea of an independent, individual set-up."

Without an Arts Council grant, with minimal, sporadic funding, the band has proved "recession-proof" since its birth in the tricky year of 1986. "Fund-raising has increased year by year. It helped being founded by people who simply said, 'Let's set up an orchestra'. Commercial people like that kind of spirit."

So does the public. Standing ovations are a matter of course in Holland, but Monday's reception at Amsterdam's Concertgebouw had a particular warmth. How acoustics vary was illustrated by the next evening's concert at the Théâtre du Châtelet, Paris's lived-in jewel-box with its faded paintwork and tarnished gilt. Where the Concertgebouw's plush acoustic cushioned Brian Newbould's realisation of Schubert's "Tenth", blurring and smudging details, the Châtelet's dryer acoustic, though harder work for the players, was more pointed, better defined – even witty: as it happened, very Parisian.

At Vienna airport, sweltering in the high twenties, a welcoming sign from Siemens to a "conference on semi-conductors" occasioned some hilarity in the orchestra. Vienna inspires a mixture of defensiveness and humorous resignation. The Viennese, led by their Philharmonic, love Simon Rattle but traditionally give a rough ride to foreign orchestras that dare to play "their" Schubert, Haydn and Beethoven. Nor is knowledge of "authentic" performance as advanced here as in Britain, the Netherlands or France. Gustav Mahler said that if the end of the world was coming he would go to Vienna, since everything happens there 20 years later.

In mid-"Festwochen", rival attractions included Handel's *Alcina* conducted by Nicolaus Harnoncourt – the band's collective eyes gleamed; they have long tried to lure him into a guest appearance – Enesco's Oedipus opera and a *Richard III* directed by Peter Zadek.

The worst place then, psychologically speaking, for the second clarinet to be declared suffering from exhaustion a few hours before the concert.

Finding a replacement was tricky, even in this musical city: the period instrument imposes special requirements in pitch and style. Desperate messages were left on answering machines. The orchestra's principal clarinet Anthony Pay contacted a pupil in Bavaria: he could make the second half if a private plane is provided (estimated cost: DM3,000-DM4,000).

In the event, the clarinet part in the opening Schubert was allocated to the viola – Annette Isserlis, scion of a notable music family; and a clarinettist from Vienna's own crack early music ensemble, Concentus Musicus Wien, stood in for the Beethoven.

In the Konzerthaus the players were drenched in sweat and the audience uncomfortable in the suffocating heat. Isserlis was the heroine of the first half, transposing from clarinet notation as she went along; the Concentus Musicus player was impeccably professional in the second half's "Eroica".

To my ears the performance was the best yet, and even the Viennese, especially the young, stamped and shouted. Some of the band thought the reception was for Rattle rather than the players, but sitting in the audience I could feel rapt attention.

The love of historical categorising has cast the Edwardian period as a *fin de siècle* summer afternoon before the cataclysm. In the long summer that seems to be ending – dare we say hopefully? – our decade, our millennium, only cynics could be unmoved by a Viennese audience shouting for British musicians playing Beethoven; and only the most sceptical could deny feeling a kind of European-ness that has nothing to do with politics and everything to do with civilisation.

The Orchestra of the Age of Enlightenment European tour, sponsored by Goldman Sachs, ends at the Queen Elizabeth Hall tomorrow.

Theatre in London

Journey into light

Something wonderful happens at the curtain call of Method and Madness' *The Winter's Tale*. Wreathed in smiles, the actors move forward and you stare in disbelief. We have just watched a play with 25 characters but there are only eight actors. We've known that all along, indeed the production has gone to often comic lengths to point up the doubling, but realising that so much has been created from so little still comes as a sweet shock.

Most directors resort to doubling for financial reasons. Not Mike Alfreds. His beautifully paced production relies upon it to invigorate the storytelling. Casting the same actor as the self-deluded father Leontes and the kindly shepherd clarifies the ideas of the play and, ironically, you see the characters more clearly: the arguments about love and fatherhood and the themes of jealously and forgiveness which course through Shakespeare's late, great, but almost impossibly wayward play are made flesh.

"Exit pursued by a bear" is not only the world's most famous stage direction, it also tells you something of the play's extreme demands. It takes place over 16 years in two contrasting countries and requires an audience to swallow not only sudden jealousy and symmetrical plot contrivances, but the effects of the seasons, pastoral dances and a statue which comes to life, let alone a bear of murderous intent.

Alfreds and his costume, set and lighting designer Paul Dart have been working together for so long it is impossible to separate their input. Alfreds opens the play with the actors literally cloaking themselves in the world of the play, dressing each other in simply-draped coloured cloths edged in fur which stand out against the uncluttered set. Several delightful comedy beards later, the diverse yet unified visual style of the production is so strong that by the time the splendidly furry eight-foot high bear appears we are able to laugh at it and still be moved.

The women are particularly strong. Penny Layden is a radiant Perdita and Alexandra Mathie's Hermione has a remarkable clarity and a powerful stillness which, allied to Alfreds' calm staging, makes the climactic statue scene seem completely logical and deeply moving. The scene is also pivoted on Marty Cruikshank's excellent, crowish Paulina, beady-eyed and fiercely protective.

Raad Rawi isn't quite relaxed enough to pull off the almost impossible task of imbuing Leontes with both regal authority and the weakness of jealousy but his performance deepens as the scales fall from his character's eyes. Yet the real vindication of the sheer dramatic power of Method and Madness comes in the way you react to often overlooked roles. Chris Crooks' thoughtful, marvellously sincere performance turns Camillo from an also-ran into a key figure. Seeing him again as a spectacularly hopeful but dim clown only adds to our enjoyment of an increasingly compelling journey into light.

David Benedict

At the Lyric Hammersmith, London W6 (0181-741-2311).

Bizarre bazaar

There always seems to be a novelty food-oriented event in the London International Festival of Theatre. In past festivals the role has been filled by Bobby Baker (seen in 1995 immersing herself in a bathful of chocolate sauce); this year, however, the performance is supplied by the punters as we wander around Alicia Rios' installation *La Feria de los Cinco Sentidos* ("The Feast of the Five Senses").

Moving from BAC's lobby – hung with curtains of fruit and veg, from capsicums to asparagus stalks and strings of cherry tomatoes – past a row of hams and through a corridor hung with tinkling mobiles and thunder sheets, one is confronted in the Grand Hall by an array of vegetable fountain sculptures: torrents of leeks, cascades of shallots. Against one wall is a line of boxes into which one inserts a hand to encounter textures ranging from chalk to what I fervently hope were tubes of marshmallow. A wheel of central tables offer the "Tasting Palette", a variety of foods also arranged according to texture: "airy and light", "crunchy and moist", "stretchy and rubbery" and so on. We are invited to sample these, to take lollipops from the Edible Rainbow and to fill our brightly coloured mesh doggy-bags with whatever takes our fancy.

An initial air of tentative buffet gradually loosens into a bazaar atmosphere as visitors realise that everything is not just permitted but positively encouraged; one's sense are freshly whetted, not perhaps to the point of revelation, but certainly as far as it takes to have great fun. Besides, this is probably the only place in London where you will be actively exhorted to jump up and down on enormous sheets of bubble-wrap.

Upstairs in Studio Two, *Khol Do (The Return)* is a rather more conventional affair, and also, alas, much duller. Kathakali-trained dancer Maya Krishna Rao interprets a short story by Saadat Hasan Manto depicting the horrors of Indian partition in 1947. "Interprets" is the key word, as we are politely but firmly instructed before the show begins to read the story as printed on the programme sheet; "it will make it easier to follow", we are told, meaning that otherwise we will have no idea what we are supposed to be seeing.

The most eloquent sequences of Rao's performance are those in which she seems most closely to approach the traditional dance form; the rest of the time, slowness and deliberateness of movement are mistakenly deemed sufficient to convey the agonies of a father searching for his lost daughter. I am afraid that I found more of interest in the *raga*-like aspects of the soundtrack (consisting largely of pieces by Philip Glass) than in Rao's precise but largely unintelligible motions.

Ian Shuttleworth

La Feria... until June 14, *Khol Do* until June 15, at BAC, London SW11 (0171-223-2223).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION
Koninklijk Paleis
Tel: 31-20-6248698
● Het Paleis in de Schilderkunst van de Gouden Eeuw: display of 17th century paintings inspired by the Paleis, built by Jacob van Campen. Artists include Berckheyde, van der Heyden, Lingelbach, Maes, de Hooch and Metsu; from Jun 18 to Jun 22

■ BERLIN

DANCE
Staatsoper Unter den Linden
Tel: 49-30-20354438
● Staatsopernballett: programme including Michail Fokine's *Les Sylphides* and *The Dying Swan*, and Nijinski's *L'Après-Midi d'un Faune*; Jun 20, 21

■ BONN

EXHIBITION
Kunstmuseum Bonn Tel: 49-228-776121
● Multiple Identity: display of work of contemporary American artists from the collection of the Whitney Museum of American Art, New York. Included in the exhibition are pieces by Carl André, David Hammons, Jean-Michel Basquiat, Mike Kelley, Jeff Koons, Catherine Opie, Cindy Sherman and Tony Oursler; to Sep 7

■ BRUSSELS

OPERA
Théâtre Royal de la Monnaie
Tel: 32-2-2291200
● Ariadne auf Naxos: by R. Strauss. Conducted by Antonio Pappano. Soloists include Susan Chilcott; Jun 18, 20

■ CHICAGO

EXHIBITION
Museum of Contemporary Art
Tel: 1-312-280-2660
● Alix Pearlstein: video installation by the New York-based artist who uses everyday objects to create scenes and situations loaded with sexual innuendo; from Jun 20 to Aug 17

■ DUBLIN

CONCERT
National Concert Hall
Tel: 353-1-6711888
● National Symphony Orchestra of Ireland: with conductor Colman Pearse and cellist Arun Rao in works by Respighi and Tchaikovsky; Jun 17

■ LONDON

EXHIBITION
Barbican Art Gallery
Tel: 44-171-6384141
● Serious Games: Art Interaction Technology. Exhibition of work by eight international artists examining interactive elements in contemporary art, covering a range of media and technologies, from grass seeds to the latest developments in virtual reality; from Jun 19 to Aug 17
British Museum
Tel: 44-171-6361555
● Printmaking in Paris 1905-1970: Picasso and his Contemporaries. Exhibition examining developments in printmaking that took place between 1905 and 1970. Organised as a sequence of episodes the display looks first at the Cubist works of Picasso and Braque, moving on to Matisse, the Surrealists and the post-War work of Soulages and Dubuffet, finishing with pieces by Vasarely, Poliakoff and Manessier; to Sep 14

■ MADRID

CONCERT
Fundación Juan March
Tel: 34-1-4354240
● Enrique Perez Piquer: performance by the clarinettist, accompanied by the pianist Aníbal Bañados and the Bellas Artes Quartet. The programme includes works by Brahms; Jun 18

■ MILAN

OPERA
Teatro alla Scala di Milano
Tel: 39-2-88791
● Le Nozze di Figaro: by Mozart. Conducted by Riccardo Muti, performed by the Orchestra e Coro del Teatro alla Scala. Soloists include Monica Bacelli, Barbaro Frittoli, Vesselina Kasarova and Maria Costanza Nocentini; Jun 16, 17, 18

■ NEW YORK

EXHIBITION
Brooklyn Museum Tel: 1-718-638-5000
● American Paintings: Ashcan and Modernist: display of works taken from the museum's own collection of paintings from the first half of the 20th century. Featured artists include Florine Stettheimer, Marsden Hartley and Georgia O'Keeffe; to Jun 29
The Metropolitan Museum of Art Tel: 1-212-879-5500
● The Four Seasons: display featuring over 80 costumes selected from the museum's collection. The exhibition spans three centuries and examines the influence on fashion of changes in climate, social life and recreation; to Aug 17
Whitney Museum of American Art Tel: 1-212-570-3600
● The 1997 Biennial Exhibition: the Biennial is the Whitney's signature exhibition and focuses on the most important developments in recent American art; to Jun 22

■ PARIS

EXHIBITION
Bibliotheque Nationale Tel: 33-1-47038340
● Costumes en trois actes: exhibition featuring 60 pieces of theatre, ballet, circus and opera costumes, including the négligé worn by Marlene Dietrich in *Kismet*; to Jul 26

FESTIVAL
La Sorbonne
Tel: 33-1 42 62 71 71
● Festival de Musique en Sorbonne: this year's festival features performances by Ensemble Spirale, the Choeur and Orchestre de Paris-Sorbonne, Christophe Simonet and Trio Cappa. The opening concert is by the pianist Marie-Josèphe Jude, performing works by Brahms and Schubert; to Jun 24

■ SAN FRANCISCO

OPERA
Golden Gate Theatre
Tel: 1-510-6714000
● Madame Butterfly: by Puccini. Conducted by Marco Armiliato. Soloists include Rosalind Sutherland and Elizabeth Bishop; to Jun 29

■ VALENCIA

EXHIBITION
IVAM Centre Julio Gonzalez
Tel: 34-6-3863000
● Magic Realism: Franz Roh and European Painting 1917-1936. Large-scale exhibition examining art between the wars and featuring works by 120 artists including Beckmann, Schad, Grosz, Dix, Schlichter, Schrimpf, Carrá, de Chirico, Léger, Picasso, Sunyer and Dalí; from Jun 19 to Aug 31

■ VENICE

EXHIBITION
Biennale di Venezia
Tel: 39-41-5218711
● Biennale 1997: the 47th International Art Exhibition is the centrepiece of the 1997 Biennale and an attempt to merge past and present by displaying recent work by artists represented in previous Biennales. The exhibition will be divided between the Central Pavillion and the Corderie, surrounded by smaller displays by the various participants in this year's event; to Nov 9

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Symphoniker: with conductor Vladimir Fedosejev in works by Fauré, Debussy and Schoenberg; Jun 18, 19

■ ZURICH

EXHIBITION
Kunsthaus Zürich Tel: 41-1-2516765
● Birth of the Cool: display of paintings by American artists, including works by Georgia O'Keeffe, Jackson Pollock and Andy Warhol; from Jun 18 to Sep 7

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The FT Interview · John Howard

Hard times down under

Australia's prime minister tells Nikki Tait his country cannot solve its economic problems by retreating into isolationism

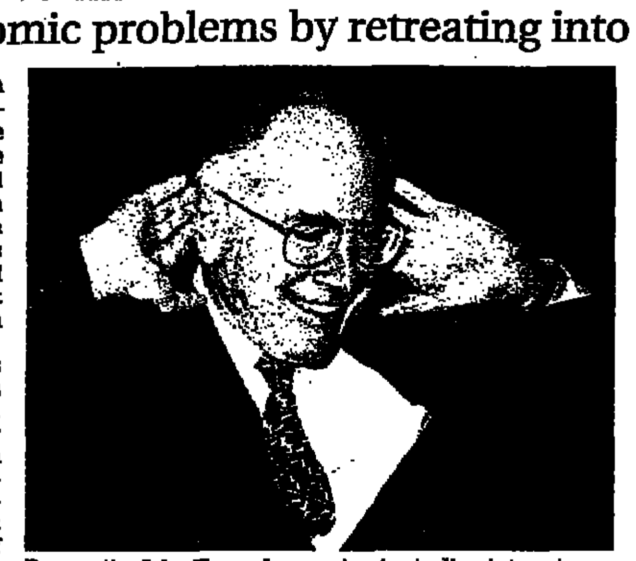
For Mr John Howard, Australia's prime minister, the political honeymoon did not last long. He won an electoral landslide 15 months ago, bringing his Liberal party back into government after more than a decade in the political wilderness.

Today, the euphoria is long gone. Australia is divided and in turmoil. Unemployment is stubbornly high and economic growth has slowed. This has exacerbated calls for less immigration and a more protectionist trade policy. And, because of the tight budgets, some Australians resent money spent on Aboriginal welfare.

Some commentators even fear Australia is in danger of retreating into isolationism. But Mr Howard, sitting in his Sydney office, bristles at the suggestion. "I think that is quite wrongly placed. I think a lot of commentators in this country, including in the media, have had enormous difficulty in adjusting to the change of government. You can't have an inward-looking Australia. Those days are gone forever. But that doesn't mean that on every single decision we will go to the outer limits of exposure."

He points to a recent fight between industry and the free trade lobby over car tariffs, which resulted in the government agreeing to a five-year freeze on tariff reductions from 2000, to the delight of carmakers who had said investment could be at risk. Only then will an additional tariff cut and a policy review take place.

"On car tariffs, for example, we kept forward the momentum of change but we took care to guarantee investment in jobs. I can't think of a more fundamental and sensible approach," he says. And while his conservative government has reduced immigration targets in two consecutive years, he points out that the former Labour government had cut the targets to an even lower level in 1993.



Pragmatic: John Howard promotes Australian interests

It seems that a similar strategy of "pragmatism over ideals" applies to foreign policy. "Well, of course," says Mr Howard, unrepentantly. "The primary job of the prime minister of Australia is to promote the interests of Australia. That doesn't mean I'm blind to the concerns of other people. But there are issues where we will inevitably have a different point of view – even from close friends such as Britain and the US."

Hong Kong is a case in point. Last week Australia declined to join an international boycott of the swearing-in of a China-appointed legislature in Hong Kong. It also broke ranks with the US two months ago, when it withdrew support for a United Nations resolution condemning China's human rights record.

Pragmatism has also been to the fore in the government's handling of Ms Pauline Hanson, the independent MP whose attacks on Asian immigration and Aboriginal welfare have divided the nation. When the row first broke out, Mr Howard declined to comment directly on her views and only belatedly said she was "wrong". Partly as a result, the debate has rumbled on for almost a year.

So how does Mr Howard assess the impact on Australia's image?

The prime minister is patently touchy. "I don't think it's changed," he says abruptly. After prompting, he adds: "The reason it's a non-issue is that anyone who cares to really ask and inquire will know that the views she's expressing don't represent mainstream Australia."

On the economic front, the new government's resolution has been questioned too. Its first budget was a conscientious effort to reduce Australia's federal budget deficit, through cost-cutting and expenditure-saving measures. But the second did little more than consolidate on those gains.

"One of the things I think people have missed a bit is that the first budget had measures which were to take effect over a two-year period," replies Mr Howard.

Perhaps partly to deflect such criticism, the prime minister is beginning to put reform of Australia's tax system – which is heavily tilted away from indirect taxation at present – on the political agenda. "I haven't decided the precise form of the debate which from now will take. But this country needs a new improved tax system which will help to create more jobs, encourage exports · and encourage investment."

Persuading the Australian electorate down this road may not be so easy, though. Already, a significant portion seems weary of change. "That's true," concedes Mr Howard. "You've always got to take the community with you on reform. You've got to explain to people what the benefit is in the reform, and satisfy them that it's fair."

It is somewhat ironic that Mr Howard, an admitted monarchist, will probably find himself explaining during a visit to Britain this week the plans for a "people's convention" later this year. This could start the process by which Australia cuts constitutional ties with the monarchy. Like all visiting Australian prime ministers, Mr Howard will call on the Queen.

It is not a subject which seems to excite him. "If anybody asks me, I'll talk about it, but not in any new sense," he says. But surely he may be asked to characterise Australian opinion? He remains downbeat. "It's a debate which is at a sort of a low simmer. Obviously, people's attitudes are different now to what they were 20 or 30 years ago – quite different. My children's attitudes towards the monarchy are very different from what children felt 30 or 40 years ago.

"But how that translates – and at what time and in what form – into change is something which will evolve."

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Commission fearful of stronger watchdog

From Mr Richard Milner.

Sir, Mr Graham Weale makes some perceptive criticisms in his attack on the proposed merger between Tractabel and Electrabel to create a Belgian super-utility (Letters, June 11). It appears that he concludes in favour of a stronger competition watchdog, and, while he is right to do so, it is likely that his desire will go unfulfilled.

The European Commission will not strengthen its competition directorate (DGIV) for fear of member states' criticisms that it is a usurpation of the subsidiarity principle. Yet, in taking this position, the Commission is liable to accusations that its commitment to competition and liberalisation is weak.

The difficulty in reaching the common position on electricity deregulation last summer, and the clear blue water between many parties in the current discussions on the liberalisation of Europe's gas markets, illustrates the problem all too well. The primacy of the subsidiarity principle has been proven to undermine the Commission's objectives, however worthy they may be.

If competition is to be effective in Europe, the rulings of supranational institutions must be enforced with diligence and fairness in member states. The mechanism that exists currently is clearly inadequate. In addition, the trend towards the creation of "national champions" must be replaced by a culture of, at least, regional champions.

Richard Milner,
European energy analyst,
Marketline International,
1st floor,
9-13 Swiss Terrace,
Swiss Cottage,
London NW6 4RR, UK

Windfalls not inflationary

From Mr Ken Duckworth.

Sir, The assumption that more money in people's pockets means more purchasing *and* inflation is flawed.

Economies are people not numbers and people have changed. They may have windfalls to spare, but the attitude of buying at any price no longer exists. The consumer is now a very price-conscious predator. No longer the cavalier spending spree of the 1980s, but a slick, sophisticated animal.

The UK has a modestly healthy economy with falling inflation, in spite of the Bank of England which a year ago was calling for higher interest rates. Today, we are at the previous government's target. Can the Bank not accept that it is possible to have an expanding economy without excess inflation? Raising the cost of money is in itself inflationary and, in any case, inflation is a global problem. The raising of UK interest rates will not alter the price of oil or raw materials.

In real terms, our interest rates are already excessive compared to the UK's competitors. Further rises will surely mean fewer golden eggs from the goose.

Ken Duckworth,
14 Mill Street,
Bradford,
West Yorkshire, UK

An exhibition too far

From Mr Roger Helmer.

Sir, I just received news from "The Euro Info Centre" of an event called Interprise Textilia 1997, which appears to be a trade exhibition or seminar organised by the European Commission.

I was horrified to read that "The Euro Info Centre in Erfurt, Germany, is one of a network of over 220 consulting offices set up by the European Commission to provide services to small businesses". This is bureaucracy run mad. Who authorised vast slices of our taxes to be spent in this way? What on earth good do they do (piled on top of all the Chambers of Commerce, Business Links, training and enterprise councils and what-all that national governments run)?

What business is it of the European Union to run trade shows? Surely this is something that should be left to the commercial sector? There are plenty of textile shows, exhibitions and conferences already.

The best way to help SMEs is to cut taxes and regulation and to increase labour market flexibility. Extra Euro-exhibitions, we don't need.

Roger Helmer,
managing director,
Donisthorpe,
Bath Lane,
Leicester LE1 9BQ, UK

Quid pro quo border control with UK would be irrational

From Mr John Jenkins.

Sir, Like David Sweet (Letters, June 5) I have often stood in long queues at Brussels Midi station after getting off the Eurostar. But I have a rather different analysis of the problem.

If Belgium believes it can protect its interests without border controls then it should do so. Indeed, given its porous borders with other neighbours, it needs to do so. If, either voluntarily or through signing up to the Schengen agreement, it nevertheless applies border controls to arrivals from the UK, it is presumably because it believes in a particular threat from UK shores which is not present from elsewhere. Unless, of course, the reason is an irrational quid pro quo for the fact that the UK has not joined the Schengen agreement for which it is not suited and which was not written with the UK's situation in mind. If such responses have been made, that does not make them the UK's fault.

If it applies border controls to travellers from the UK, the least Belgium could do is to operate them efficiently. The wait at Waterloo International is never as long as in Brussels and is often non-existent thanks to border controls on the train – further evidence that badly run public services of any description are a greater obstacle to intra-Community travellers than any cursory passport check.

The UK being an island makes a difference. Mr Sweet's point about the number of air travellers is a red herring, as five minutes at any motorway border post will tell him. He might also discover that, notwithstanding Schengen, other states' commitment to abolishing border controls is less than wholehearted. The "image" of those states is not thereby called into question by anyone I know, and certainly not by their own citizens. Why are the UK's worst critics always from its own ranks, like the character in the Mikado who "praises with enthusiastic tone every country but his own"?

John Jenkins,
7 Rue Jules Lejeune,
1050 Brussels,
Belgium

Personal View · Peter Sutherland and John Sewell

Global way to a fair deal

There are many steps the G7 can take to promote the health of the world economy

The leaders of the seven largest industrial countries gather in Denver this week for their annual summit. If events follow the recent pattern, the final communiqué will focus not only on traditional issues, such as monetary policy and expanding trade, but also on the impact of globalisation.

Globalisation – the fundamental changes in the world economy unleashed by technological advances and the liberalisation of trade and capital – promotes efficiency and innovation and creates wealth that can lead to more just and equitable societies.

But rapid adjustments in patterns of production, investment and trade are not without cost. There are deep concerns that many individuals – and even nations as a whole – will be left out or will have to bear the costs of benefits enjoyed by others.

These concerns are understandable. It took decades before the benefits of the industrial revolution were widely and equitably shared in the G7 countries.

There are many steps the G7 can take to maintain the health of the global economy and to meet these new challenges. But they must also widen the set of actors. Last year the G7 called for "new global partnerships" between developed and developing countries and the multilateral institutions to ensure that all countries benefit from globalisation.

The goal is correct, the forum is not. The G7 framework is inadequate to address the policy implications of globalisation. The process must involve both those "emerging market" countries now driving and benefiting from globalisation – notably in Asia and Latin America – as well as those countries marginalised by it, in particular many countries of sub-Saharan Africa.

Effective responses to deepening globalisation must be based on mutual commitment to policy changes and on a renewed emphasis on multilateralism. Fortunately, there is no immediate need to create new institutions. The World Bank and its regional partners, the International Monetary Fund, the World Trade Organisation and the United Nations have vigorous leaders and the required institutional capacity.

There are, however, important initiatives that the G7 can take to give meaning to the notion of "new global partnerships" which, over the long run, will deepen multilateralism:

- G7 leaders should propose a new global economic summit – a periodic meeting bringing together the heads of government of big industrial countries, representatives of the emerging economies and the poorest countries, along with leaders of multinational institutions. These informal meetings would be designed to promote initiatives that could be implemented by existing institutions.
- The consequences of globalisation must be addressed. To capture the benefits and buffer the costs of intensifying globalisation, new public policies within and between countries are needed, particularly for nations in transition and in the developing world.

Multilateral co-operation will be needed on two fronts. First, it must focus on helping those countries that are at risk of marginalisation. The need is particularly critical for the very poor countries that lack the infrastructure, human skills and governmental capacities needed to tap into the benefits of globalisation.

> There are deep concerns that many individuals – and even nations – will be left out or will have to bear the costs of benefits enjoyed by others

Second, the possible side-effects of globalisation – including environmental degradation, health challenges, migration, and the threats of crime and terrorism – must be confronted. None of these problems is new, but the combination of rapid technological change and increased cross-border commercial transactions has created an environment in which such scourges can spread more easily.

G7 leaders could take the initiative to focus their "new global partnerships" on programmes designed to build human capacity to capture the benefits of globalisation, support programmes that would not otherwise attract private investment and trade, and create a new set of global arrangements among governments focused on such issues as health, environmental and security.

There must also be a greater willingness to open markets for such vital developing country exports as textiles and agriculture.

Countries will also require financial support. The 50th anniversary of the Marshall plan offers the opportunity for the G7 leaders – whose countries provide three-quarters of all development aid – to make long overdue changes in their aid programmes to support new global partnerships.

Development in low-income countries is much more important than it was during the cold war, when too much aid went to buy allies. Now, development is at the core of the solution to the problems that affect the long-term interests of the G7 countries themselves given the ever-tighter links between rich and poor countries. Aid and other policies need to reflect that reality.

- G7 leaders must seek to equip Africa, by far the most marginalised continent, with the necessary physical and institutional infrastructure as well as human capital to take advantage of global opportunities.

Africa does not need more conventional aid, which has too often promoted political interests, been tied to donor exports, and has gone to the repayment of debt and the purchase of inappropriate technical assistance.

G7 countries should immediately drop existing non-tariff restrictions on exports – particularly textiles and agricultural produce – for those African governments committed to much more rapid and deep economic liberalisation.

Reform-minded African countries should be offered technical assistance geared towards helping them exploit trade opportunities. They should be given much deeper and faster debt reduction than currently proposed, have access to export incentives and guarantees to promote private investment, and be helped to tap into the information revolution. These new commitments should be limited in time – say for 10 years. This would be enough to allow committed African governments to be launched on the path of global integration.

Globalisation is inevitable. Both the benefits and the risks are high. The issue is how globalisation will be addressed while still in its infancy. If it is not managed correctly, it may lead to instability, even in countries that benefit. The costs of an ever-more marginalised developing world would be considerable.

Conversely, if countries perceive the benefits globalisation can bring, they are more likely to be willing and able to co-operate with the G7 countries to address the challenges – from trade expansion and global financial stability to the control of narcotics, crime and terrorism.

We have an opportunity to create an international system that maximises growth and equality. It could integrate emerging economic powers and bring marginal participants into the mainstream of global expansion. Unless it pursues concrete initiatives to create truly "new global partnerships" that ensure the benefits of globalisation extend to all, the G7 risks becoming even more irrelevant.

Peter Sutherland is chairman of the board of the Overseas Development Council and former director-general of the General Agreement on Tariffs and Trade. John Sewell is ODC president.

COMMENT & ANALYSIS

FINANCIAL TIMES
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The spring of recovery

To Europe's 18.5m unemployed, the rosy prospects for the world economy may seem depressingly distant.

The latest forecast from the Organisation for Economic Co-operation and Development in Paris predicts that unemployment in the European Union will have declined from 11.3 per cent of the workforce this year to 11 per cent in 1998. It is a step in the right direction, to be sure; but a very small one compared with the mountain to climb. If EU unemployment were the same proportion of the workforce as it now is in the US (or as it was in the EU in 1976) the number of Europeans on the dole would be 10m fewer.

A reduction on this scale cannot be achieved quickly, because, as the OECD points out, a very large proportion of EU unemployment is now structural. Many people could not find jobs even if the economies were running at full throttle. The OECD emphasised this gloomy predicament by talking of a "jobless recovery". Companies continue to replace over-expensive labour with machines. So even if the new socialist government in France were to succeed in pumping up the economy, without structural reforms, the results would be disappointing.

On the other hand, the recent economic performance in the US shows what can in principle be achieved with a flexible labour market. The OECD forecasts that strong growth of 3.6 per cent this year will be combined with unemployment of only 5 per cent and inflation of 2 per cent, although with some slowing down in 1998.

Similarly, the UK, which has liberalised its labour and product markets, is expected to achieve an unemployment rate of 5.6 per cent next year, close to that of the US and only about half the rate in France and Germany. The moral should be clear, especially as the OECD calculates that every 1 percentage point cut in structural unemployment could reduce government deficits by up to 0.5 per cent of GDP. In other words, if France could get its jobless rate down to that of the UK, it could be heading for a budget surplus without taking any other painful measures.

Of course, deregulating labour and product markets is not easy. It may mean, in the short term, that wages fall and workers in feather-bedded state industries lose their jobs.

But the latest forecasts from the OECD and the International Monetary Fund show that now is the time to do it. The world is set for a comparatively golden period of steady growth, low inflation and buoyant trade. In Europe, the prospect of monetary union has also brought exchange rate stability and convergent interest rates. These also can only be preserved by one thing – structural reform.

UN deals

The agreement struck between the White House and the Senate Foreign Relations Committee to pay off US debts to the United Nations is good news. It is unlikely that every one of the committee's four pages of demands will be accommodated, and further deals will be needed. But an important hurdle has been cleared.

No other UN member has legislative committees which demand that the payment of dues should be subject to unilaterally imposed conditions. But it is a fact of US constitutional life that Congress controls the purse strings.

The agreement of the Foreign Relations Committee chairman, Senator Jesse Helms, to sanction the repayment of $819m (£502m) of the $1.3bn the UN says is outstanding is a great improvement on the uncooperative stance he has taken during the long-running standoff. To describe Mr Helms as a critic of the UN would be a crass understatement.

Even so, the "benchmarks" set by the committee will cause problems. These conditions range from the trivial (docking aid to countries where UN officials receive parking tickets), to the substantial (a sharp reduction in US contributions). Mr Helms requires that the US General Accounting Office should inspect the UN books. It is certainly desirable that UN accounts be open to scrutiny, but to all members, not just one.

The UN secretary-general, Mr Kofi Annan, has given a carefully guarded welcome to the US plan. Mr Annan is shrewd enough an observer to understand Washington's delicate division of powers, and extreme isolationist streak. This at least is a step in the right direction.

The reaction of the other UN members has been understandably cool. Countries that have shouldered the financial burden during the US's partial boycott think that the debt should now be repaid in full. And if future US payments are reduced, others will have to make up the difference.

Nor will leading member countries be pleased by the prospect of the agenda for UN reform being set by a few individuals on a US senate committee. Japan and Germany in particular are likely to balance any demands for more cash with demands for permanent seats on the UN security Council.

Nonetheless, the US decision to re-engage with the UN should be welcomed and encouraged. An agreement must be found. As the remaining world superpower, it is in everyone's interest that the US plays not only a a leading role in world affairs, but also a constructive role in the United Nations.

Bánzer's choice

Bolivia's democracy is facing a crucial test after this month's general elections. Under the country's unusual political system, Congress must decide which of the leading two candidates in the popular presidential vote becomes head of state. The outcome of the political horse trading now under way is crucial to the country's future.

The man most likely to be president is a former de facto dictator of Bolivia in the 1970s, General Hugo Bánzer, who polled the most votes.

As he bids to secure the presidency, Gen Bánzer should be aware of the importance of capitalisation, Bolivia's unique privatisation method enacted by the current government of President Gonzalo Sánchez de Losada. This has secured $1.7bn of foreign investment from foreign "strategic partners" now managing five former state-owned companies. The investment is badly needed in a country starved of it for decades, and promises a distribution of share proceeds to the entire population through newly created pension funds. It would be a pity to disrupt this promising process.

As a former dictator, Gen Bánzer should also be anxious to avoid commitments that would undermine democracy. In this respect, the pact he announced last week with a former president, Mr Jaime Paz Zamora of the MIR, the Revolutionary Movement of the Left, is worrying.

Mr Paz Zamora, a former Marxist jailed and exiled by Gen Bánzer in the 1970s, was third in the poll and would under the pact ensure that his deputies back Gen Bánzer. The problem is that Mr Paz Zamora is currently denied an entry visa to the US because of alleged links to drug traffickers. His chief political aide is in jail in Bolivia on narcotics-related charges, and other members of the MIR have been implicated.

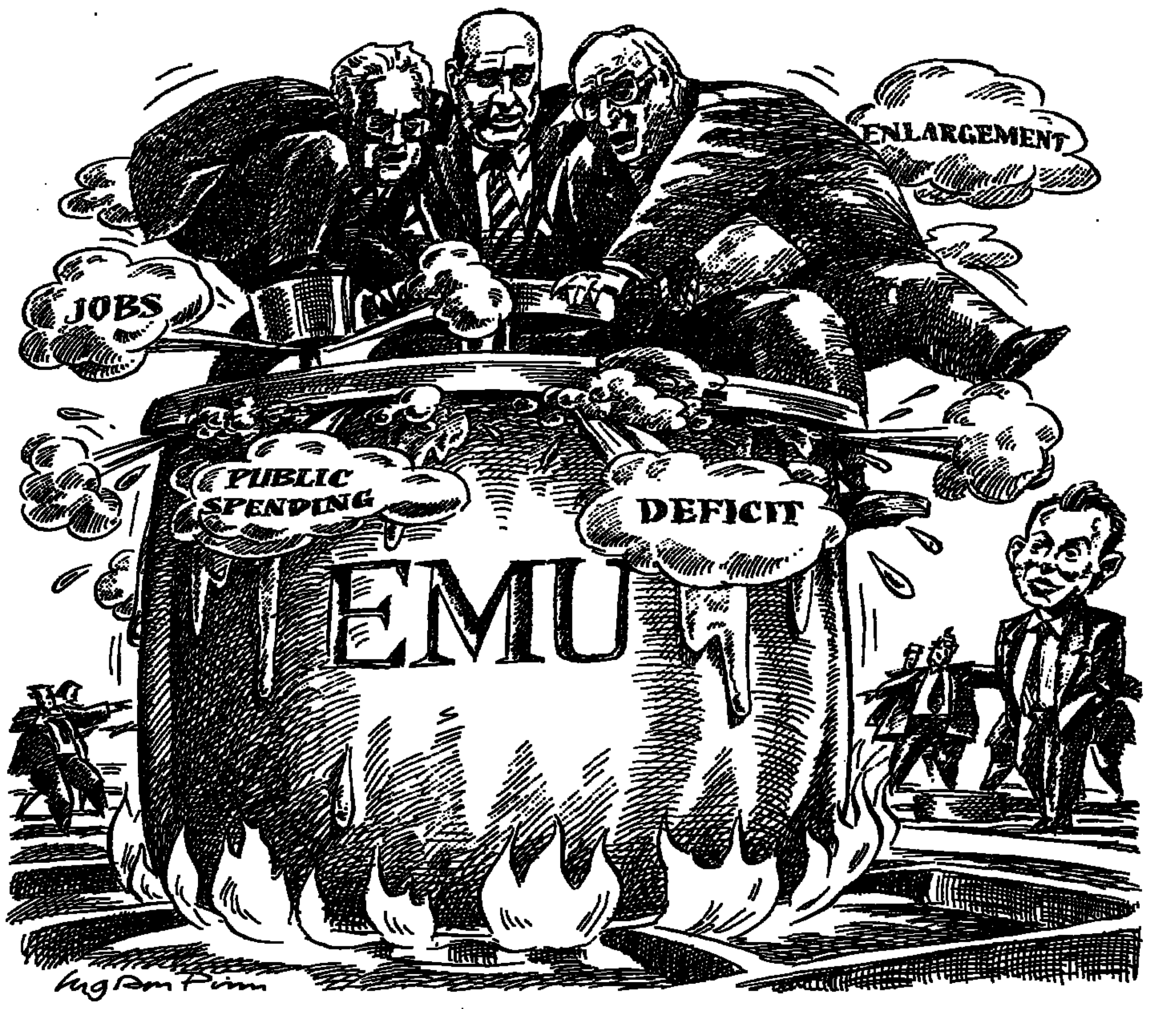
Bolivia is already deeply damaged by the cocaine trade, and the alliance risks a corrosion of the democracy reestablished 15 years ago. Serious as this is, the full implications do not stop there. Bolivia is still heavily dependent on aid from the US, a flow of resources that could dry up if the MIR plays an important role in government.

US backing is also essential for a proposed foreign debt forgiveness deal. Without these debt concessions, hard won advances of the Bolivian economy remain acutely vulnerable to downturns in commodity prices.

Gen Bánzer could secure the presidency without the backing of the MIR. He should avoid the risks associated with Mr Paz Zamora and his supporters and make every effort to secure the support of other parties.

Close to boiling point

The left's victory in France could turn the Amsterdam summit into an exercise in crisis management, says Lionel Barber



Today's European Union summit in Amsterdam was never going to be a straightforward affair. Now, thanks to an uninvited guest, the stage management promises to be trickier than appeared likely.

Just a fortnight ago, the Dutch hosts hoped they could keep economic and monetary union off the agenda. Their game-plan was to force EU leaders to conclude a revised Maastricht treaty, which would reform institutions and decision-making to prepare the Union for enlargement to central and eastern Europe.

But a rush of unforeseen events, culminating in the left's upset victory in the French parliamentary elections, has turned European politics upside down. Rather than being a showcase for a new "Treaty of Amsterdam", the summit could turn into an exercise in crisis management, primarily between France and Germany, over the terms and conditions of Emu.

A Franco-German split opened up last week when the new Socialist-led government in Paris announced it needed more time to consider the Stability Pact which it felt tilted too far towards budgetary rigour at the expense of growth and jobs. The German-inspired pact, intended to guarantee fiscal discipline in the future single currency zone, was supposed to be signed in Amsterdam, along with two other texts on a reformed Exchange Rate Mechanism and the legal status of the euro.

Ratification of the pact, whose sanctions were modified under French pressure in Dublin six months ago, is essential to maintain the confidence of financial markets in Emu. Though not unexpected, the French demands removed the air of inevitability about the planned launch of the single currency on January 1 1999.

Last Friday's Franco-German summit in Poitiers failed to produce a breakthrough. The Germans were especially irritated by French demands for "concrete measures" – a euphemism for spending EU money on job creation. Hopes rest on a compromise whereby the French would sign up to the stability pact in return for obtaining a solemn declaration in Amsterdam that employment and growth should be top of the EU's agenda.

But mistrust lingers. German officials voice doubts about France's long-term commitment to fiscal discipline, while French officials warn that Germany must honour its treaty commitment to monetary union or face consequences. "What is worrying," says one insider, "is that both sides are talking the language of mutually assured destruction."

The fracas over the stability pact suggests that internal conflicts generated by Emu are growing, and could spill into other areas. To date, EU leaders have followed an iron rule that the euro-debate must be kept separate from the contentious issues facing them in the next 18 months: conclusion of the intergovernmental conference (IGC) which is reviewing the Maastricht treaty; eastern enlargement and the related renegotiation of the EU budget; and reform of the common agricultural policy and the regional aid budget.

The sine qua non is a successful IGC which paves the way for the selection of candidates for enlargement by the end of the year. Then comes the choice of Emu members in spring 1998, renegotiation of the budget in 1998/1999 and Emu's launch.

In a flash of temper in Luxembourg last Monday, Mr Theo Waigel, the German finance minister, warned that there could be no agreement in the IGC without a deal on the stability pact. He retreated later but Mr Lamberto Dini, the Italian foreign minister, has offered a reverse warning: without a satisfactory outcome to the IGC and, by implication, if Italy fails to make the first round of Emu, enlargement itself could be at risk.

These tensions reflect how Emu has become the defining issue in European politics. This holds good for Italy and Spain – where the prime ministers of centre-left and centre-right coalitions respectively have staked their careers on being in the first round of monetary union – but also for France and Germany, whose participation in Emu is indispensable on political grounds alone.

Six weeks ago, President Jacques Chirac's decision to call snap parliamentary elections in France was widely seen as a daring bid to clear the decks for fresh austerity measures to guarantee that the country would meet the Maastricht budget deficit criterion of 3 per cent of gross domestic product in 1997.

But the gamble failed. Mr Chirac now faces the prospect of five years of "cohabitation" with Mr Lionel Jospin, France's new prime minister, and his Socialist-led coalition. The left's message is that austerity cannot continue without a stronger commitment to tackle unemployment. Indeed, the previous centre-right government led by Mr Alain Juppé had also signalled the same concern that Maastricht was increasingly seen by the French public as a recipe for deflation.

French calls for a political counterweight to the future central bank – a so-called Stability Council drawn from members of the euro zone – were a further symptom of unhappiness with the German blueprint for monetary union.

In normal times, Germany would be eager to accommodate its closest ally. But these are not normal times. Chancellor Helmut Kohl, Europe's elder statesman, is probably more vulnerable than at any time since he assumed power in 1982. An over-regulated, inflexible German economy is stuck with slow growth. Unemployment in Germany is at the highest level since 1933. The centre-right coalition is paralysed by a budget crisis which could endanger Germany's ability to meet the deficit criterion for 1997.

The pressure-cooker atmosphere in Bonn has intensified since Mr Waigel proposed revaluing the Bundesbank's foreign exchange and gold reserves as a short cut to reducing the 1997 deficit. After a public outcry, the government backed down. The result is that Mr Kohl has almost no margin of manoeuvre on Emu.

Instead, he is reduced to issuing ever more frequent warnings that the single currency is a matter of "war and peace" in Europe, that a delayed launch will lead to chaos on the financial markets, and that an overvalued D-Mark will kill German exporters.

In the past, such rhetoric has helped to force agreement at EU summits. So what are the chances for an IGC deal, assuming the French and Germans can paper over their differences?

Last night, European Commission officials argued a deal was possible, largely because President Chirac had thrown his weight behind signing the stability pact. "Does Mr Jospin want to go down as the man who killed Europe, and killed the euro?" says one official.

The other favourable sign is that the Dutch presidency's final draft treaty text avoids many of the pitfalls which marked the launch of the 1992 Maastricht treaty. The new treaty attempts to "repair" Maastricht by steering clear of a big increase in EU-wide powers, offering citizens the right to more information about decision-making in Brussels, creating closer co-operation in matters of internal and external security and promising more co-ordination on employment policy.

Welcome to the "People's Europe". The centrepiece is a new chapter entitled "Freedom, Security and Justice" which would allow for a progressive phasing-out of border controls over five years, buttressed by deeper co-operation on asylum and visa policies to bolster the EU's external frontier and combat illegal immigration. Britain and Ireland will retain control over their national frontiers.

The Amsterdam treaty's other professed objective is to make the Union fit for expansion to the former communist countries of central and eastern Europe around the turn of the century. On this the jury is out.

Although most countries have signalled they are willing to relax the paralysing rule of unanimity, there is still no consensus on the extent of majority voting or a new "flexibility" clause allowing countries to co-operate more closely without being held back by laggards.

Finally, EU leaders have still to agree on the reform of EU institutions and decision-making. This issue, which includes the number of EU commissioners and the relative voting weights in the Council of Ministers, touches on the balance of power between the small and larger member states in an enlarged Union.

If the summit fails to reach agreement, the Dutch presidency has pencilled in another meeting at the end of the month. But a deal on the IGC will not remove the inherent tensions in the Emu project, (especially over the choice of future members). Amsterdam at best will signal a truce.

· OBSERVER ·

Passing clouds

■ Japan's prime minister Ryutaro Hashimoto loves being a globetrotting statesman and is proud to be on first-name terms with US President Bill Clinton. But there's one fly in the ointment when he drops in on his American chum – the land of the brave and the free isn't welcoming to chain-smokers.

The Japanese leader lights up at just about every opportunity, including cabinet meetings and formal social occasions. The country's largest anti-smoking group recently voted him "Japan's worst smoker". Pressed on his habit, he said: "It's a matter of personal taste. Smoking is better than using drugs – but maybe I shouldn't say things like that."

The weed-addicted premier will run into some of America's toughest anti-smoking laws when he arrives on Friday in Denver for the G7 summit. The state of Colorado bans smoking in public places, including hotels and restaurants. "Heads of state are no exception," one Japanese official said ruefully, adding that Hashimoto may be able to sneak the occasional puff in his car.

He won't get much sympathy from fellow-summiteers who, if they smoke at all, do it discreetly. Germany's Chancellor Kohl has apparently been known to smoke a pipe in private and Clinton himself is said to favour the very, very occasional cigar.

Stubbed out

■ Things may be tough for smokers in the US, but there's signs that they might get worse in Egypt where the mufti, the country's most senior Moslem cleric, has just issued a fatwa against smoking after studying the sayings of the Prophet Mohammed and the Islamic holy book, the Koran, which sensibly tell the faithful not to harm themselves.

His ruling puts tobacco on a par with alcohol – which few Moslems drink – and faces about 7m Egyptians, 15 per cent of the population, with a tough decision. If other Islamic leaders follow his example, that's 1.2bn potential customers denied to the tobacco industry.

Private bank

■ Few journalists spurned their invites to last week's press conference by Mediobanca. It wasn't that they wanted to know about Austria's privatisation plans: they had never before been allowed into the secretive Milan investment bank's palazzo behind La Scala opera house.

But they didn't get behind the iron gates into the courtyard and the drawing rooms where some of Italy's biggest and most controversial business deals have been negotiated. Instead, they were whisked through a side door into an austere lecture hall with drab green velvet curtains and plain white walls. A large bouncer was on hand to make sure everybody behaved.

No secrets about the arcane and aloof institution – run for four decades by 89-year-old Enrico Cuccia – were disclosed. Even so, the fact that it had happened at all caused a stir in Milan financial circles. It was taken as yet another sign that times are changing. Many are saying that Mediobanca's influence is on the wane after a string of setbacks and the media is waiting for the next summons: to a press conference on the bank's own future.

Clashing symbol

■ It's a pity that the Restaurant de la Vienne was the nearest Chancellor Helmut Kohl got to Futuroscope, the futuristic theme park across the road from Friday's Franco-German summit near Poitiers.

No doubt the *ballotine de foie gras* and new season's lamb helped reconcile the chancellor to dealing with France's new leftwing government. But Mr Kohl might have found food for thought had he popped into the park and its pavilions – including Europe's largest flat screen cinema, whose operators had thoughtfully installed a specially large seat.

Jospin was happy to point out the park's symbolism. It claims to be "based on synergy between the three main activities of man: leisure, training and work" – in other words it's a centre for an important service industry (tourism), with educational and conference facilities. But given the public funds spent on setting up the park, Kohl might have preferred to see it as one of those publicly financed job creation schemes Germany is so anxious to block at today's EU summit in Amsterdam.

Wholly spirit

■ Austria's highest court has opened up a whole new field of exclusive rights by ruling that American spiritual medium Judy Knight is the only person allowed to chat with Ramtha. He was apparently a force to be reckoned with on the continent Atlantis 35,000 years ago before it – and presumably he – sank beneath the briny. The court told rival German medium Julie Ravel to stop butting in, as Knight offered certain "transcendental inspirations attributed to Ramtha". So there.

The Financial Times

100 years ago

Annexation Of Hawaii
Washington, 14th June. A treaty providing for the annexation of Hawaii to the United States will, according to present arrangements, be sent to the Senate at an early date. The measure provides for complete annexation, without the exactions of any conditions on the part of the Hawaiians regarding the form of government to be adopted. This question will be settled by the United States, which will also assume the public debt of Hawaii, but will secure in return the Crown lands and other possessions. It is understood that this treaty is in accordance with President McKinley's view.

The Treaty With China
The Treaty with China that was ratified last week should have received more attention than was the case from the Stock Exchange. One of the chief interests to benefit is that of the Burma Railways Company. If South-East China is to be opened up, a great impetus to trade must result from enhanced revenues to the Company, which must doubtless extend its system for the purposes of developing trade. It must be remembered that there is a guaranteed 2¼ per cent. interest on this concern, and that until 1901 a further ¼ per cent. from surplus revenue is promised.

FINANCIAL TIMES
Monday June 16 1997

Brazil probes claim that steel groups run price-fixing cartel

By Geoff Dyer in São Paulo

The Brazilian government will officially launch a formal inquiry today into allegations that three of the country's biggest steel companies have been operating a price-fixing cartel.

The government will order the three companies – Companhia Siderúrgica Nacional (CSN), Usiminas and Cosipa – to cancel an increase in prices scheduled for this month.

Separate investigations are also to be launched into the pharmaceuticals and aluminium industries. Hoechst Marion Roussell, a subsidiary of Hoechst, the German pharmaceuticals group, will be ordered to reduce some of its prices.

The decisions come in the wake of the privatisation of Companhia Vale do Rio Doce (CVRD), the world's biggest iron ore miner, bought last month by a consortium led by CSN, the biggest Brazilian steel company. The sale had raised fears about the formation of a steel cartel because CVRD also owns a stake in Usiminas, CSN's biggest rival. The latest price increase prompted complaints of price-fixing, particularly by makers of car parts.

Cade, the government's anti-trust watchdog, is conducting a separate investigation into the implications for the steel industry of the CVRD privatisation. Analysts say Cade might ask CVRD to divest some of its holdings in the steel sector.

Mr Ruy Coutinho, head of the economic law department of the Ministry of Justice, said there had been signs of cartel-like behaviour in May when all three steel companies simultaneously announced similar price rises. If the companies go ahead with a planned price increase of between 4 per cent and 12 per cent on June 27, they will face a daily fine of R$55,000 ($51,402), he said.

The three companies refused to comment, saying they had not yet been officially informed. However, steel executives argue privately that the idea that they operate a domestic cartel is mistaken because they have to compete in an international market for steel.

Analysts said that, independently of the actual circumstances of the price rises, the companies were justified in increasing rates. "The domestic market is really beating up because of the demand for cars and domestic appliances," said Mr Raphael Biderman at Robert Fleming in São Paulo.

Share prices in the steel companies fell sharply on Friday after the news leaked out. CSN shares fell 4.7 per cent to R$34.80 and Usiminas, which owns 49 per cent of Cosipa, closed down 3.6 per cent at R$1.06.

The decision to open a price-fixing investigation followed the announcement by Cade on Thursday that Miller Brewing of the US, and Brahma, the Brazilian beer maker, had to dissolve a joint venture set up in 1995 on the grounds that it reduced competition in the beer market.

French graphologists fear they could be written off

By Andrew Jack in Paris

A decision by one of France's largest companies to give up handwriting analysis as an aid to recruitment has shaken the nation's graphologists.

Saint-Gobain, the building materials group, announced last week it had dropped graphology – the study of handwriting to understand someone's personality – from its arsenal of recruitment techniques.

But the move has yet to start a trend in France.

Mr Denis Sesboüé, a partner with Boyden International, the executive recruitment firm, said: "I think 80-90 per cent of large companies and headhunters use graphology, even if only 40 per cent admit it. Some use it in their analyses of candidates while pretending that they haven't."

More than 200 specialists have received the five years' specialist training necessary to join the GGCF, the French group of graphological consultants.

The French society of graphology has 10,000 members.

Mr Jean-Louis Beffa, chairman of Saint-Gobain, gave up the practice in his group, saying that there was no scientific proof that it worked.

Mr Xavier Grenet, in charge of supervising the company's managers, said: "We are not making a judgment on graphology. But it is a very French discipline and we are becoming a more and more international group.

"It is in our interest to adopt practices which are acceptable around the world."

The announcement was met with relish by the French press, but graphologists' hearts sank at the news.

"I broke down when I read that," said one part-time practitioner who preferred anonymity in view of her job at a high-profile French organisation. "It caused me a lot of pain."

Like a number of her colleagues, she argued that because graphology was not a legally protected profession, there were "many charlatans" who discredited its image.

French employment legislation at the start of the 1990s forced anyone using graphology as the basis for a decision to admit it publicly.

Ms Françoise Eleftériou, president of the GGCF, said: "Graphology is best used when you want to make a final choice between two candidates. The proof that it works is that I have the same corporate clients who have been coming back to me for years."

Mr Jacques Mazard, a French company executive who holds a diploma in graphology, said he had found the practice very useful to understand the personality of candidates who had passed all other recruitment barriers.

But he stressed that the tests needed to be done properly and that he never analysed personal letters or the handwriting of staff within the company.

"It is not a party game," he said.

Hong Kong races up to handover

Continued from Page 1

meeting. The governor Sir J. Davis has given a cup of HK$200!"

Since then, the Jockey Club has become one of the territory's biggest businesses. Even before yesterday's meeting, gambling revenues topped the HK$80.6bn bet in the 1995-96 season.

By the end of the day, total betting for the season amounted to about HK$15,000 for each of Hong Kong's 6m residents.

Nowhere else do so many hopes – or dollars – ride on horses. The big winner is the government, which pockets about 13 per cent of revenues.

It is harder going for punters. No one managed to guess all nine horses for the triple trio, although 353 managed to pick the six leading horses in the first two legs, netting them more than HK$2m each for their HK$10 stakes.

But Mr Tien was not among them. Lucky Lord, it seems, was not so lucky.

THE LEX COLUMN

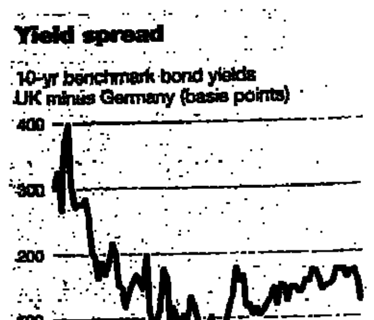
Taxing times

The UK chancellor of the exchequer's July 2 Budget looks less and less like the non-event it once might have been. Perhaps that should be no surprise: a timid first appearance hardly seems Mr Gordon Brown's style. Besides, the politics points towards a Budget with teeth – specifically, one which delivers an early tightening of the Conservatives' fiscal stance adopted before they lost the general election. There is, for a start, every likelihood that the current National Audit Office study will decide the Conservatives' planning assumptions were rather too optimistic. Conveniently, therefore, Mr Brown can raise taxes now and still blame his Tory predecessors. This would give some badly-needed financial leeway later in the parliament, by which time a cash-starved public sector will be desperately squealing.

The snag, of course, is Mr Tony Blair's much-hyped no-income-tax-rises contract with the people. But Mr Blair is also a calculator: some pain now would almost certainly pay for itself handsomely in damage limitation later. This is not just a matter of cutting borrowing: he should also be aiming to damp down demand and relieve the need for bitter monetary medicine. This would usefully take some of the steam out of sterling.

Ideally, therefore, the chancellor should be targeting the consumer. The demand effects of even, say, £3bn a year in suitably targeted tax rises would be roughly equivalent to a 0.5 per cent rise in interest rates – well worth a spot of political bother. At the same time, he could sensibly take the opportunity to abolish a pointless tax break. The most obvious harmful oddity in the system is mortgage interest tax relief – abolition would raise £3bn a year. An alternative, which would raise £3.5bn, would be to shed the married couples' allowance.

What should investors make of news that the chancellor is planning the opposite – to raid the corporate sector instead? Politically, the attractions are obvious. Companies do not vote. But it looks a lousy strategy all the same. For one thing, abolishing the dividend tax credit would do nothing to calm consumer demand. Also, the government is committed to a major review of the corporate tax system. Even Mr Brown cannot plausibly claim to have properly cracked this most knotty of intellectual problems in just a couple of months. To introduce piecemeal changes now,



therefore, can only be what it seems – naked opportunism. If the government rushes down this route, abandoning the promise of a real review, it can wave goodbye to the trust it has so far enjoyed from the business community. Its alleged commitment to encouraging investment will also be left in tatters.

Much the same applies to taxes on savings. These are undeniably a mess. Expensive gimmicks introduced by the Conservatives, such as tax-exempt special savings accounts (Tessas), could strike Mr Brown as a soft target. So could higher-rate tax relief on pension contributions. But again, to make one-off moves without a broader strategy – and especially without making a link to the long-term thinking Mr Frank Field in the social security department is supposed to be engaged in – would be an error. Both here and on corporate taxes the best possible announcement from Mr Brown would be a promise of consultative green papers tackling the big issues.

Then there is many investors' favourite bugbear, capital gains tax. Labour is known to be flirting with the idea of ensuring that long-term investments attract little or no tax. This sounds cute but is sadly flawed. It would introduce a tax avoider's paradise whose creation the government would doubtless repent at leisure.

Sadly, the same is not true of its indefensible windfall tax. If privatised utilities once made excess profits these are certainly not reflected in current share prices; these depend on duller future prospects under wised-up regulators. But this has long been obvious. And the fact that the tax is unjust has not distracted Labour politicians from the equally compelling facts that it is both convenient and popular.

There are endless arcane debates about calculating the tax, with each utility arguing passionately for the method which conveniently hurts its shareholders least. But for investors generally, three considerations will count rather more. One, clearly, is that the size of the overall windfall tax burden should not be too great. Another is that the money should be well spent. If the government's promised assault on long-term unemployment is successful, business and therefore investors have plenty to gain.

Most crucial of all, however, is that Mr Brown's speech must include a cast iron commitment that the windfall tax is to be genuinely one-off. He must not equivocate on this point; if he does, utilities' customers will end up paying a heavy price for the residual risk.

UK rail

Railtrack, the UK company, which owns the rail network previously operated by state-owned British Rail, is in danger – not from leaves on the line, but the more insidious threat of inheriting British Gas's mantle as most pilloried privatised utility. Consider the latest rumour – that Railtrack is to be singled out and savaged under the windfall tax. This looks unlikely: individual companies cannot be named in the legislation and the windfall tax will have to work to an across-the-board formula. But it is yet more evidence that the company's political stock is worryingly low.

This matters because there is a bigger political game afoot; at stake is not the windfall tax bill but the regulatory framework. Recent weeks have seen a flurry of tough talking from the regulator, all of which purists would rightly be quick to condemn. Railtrack's performance contracts, supposedly fixed, are to be reviewed early. The regulator wants direct powers over its investment programme. Meanwhile, he wants franchisees to do better than their mere contracts require, and merger proposals to be closely vetted.

The key to these outbursts lies in their timing. The government is reviewing the regulator's independence, which it has threatened to abolish. Hence, presumably, his determination to prove he has teeth. That may not be much fun for the companies. But it is very much in their interest that he should succeed.

Airbus chief hits out at McDonnell Douglas

Ron Woodard: defended McDonnell Douglas's record

Continued from Page 1

cancelled plans to launch the MDXX, a civil aircraft which would have competed with the Boeing 747, Mr Pierson said. By doing so, McDonnell Douglas "pre-empted the objections the American antitrust authorities could have had about the reduction of competition in these two sectors as a result of a merger with Boeing".

Mr Pierson added: "Recent statements by the management of Boeing leave no doubt of a long-lasting strategy implemented with McDonnell Douglas's active complicity: to limit Airbus Industrie's role to that of a niche player with a long-term view to eliminate it."

Mr Pierson also repeated his attacks on Boeing's conclusion of agreements with three US airlines – American, Delta and Continental – to be their sole aircraft supplier for 20 years. He said the deals were illegal under the Treaty of Rome.

Mr Woodard defended Boeing's exclusive deals, saying they had been concluded at the instigation of the airlines. He said he did not believe any other airlines were interested in concluding exclusive deals.

Mr Woodard continued the war of words between the two manufacturers by saying that Airbus had won recent aircraft contests in China because European governments had refrained from criticising China's human rights record.

He said the governments had "been backing off from human rights resolutions in the UN and they have been rewarded for that". He said Boeing, which still dominates the Chinese market, would continue to campaign for continued Most Favoured Nation status for China.

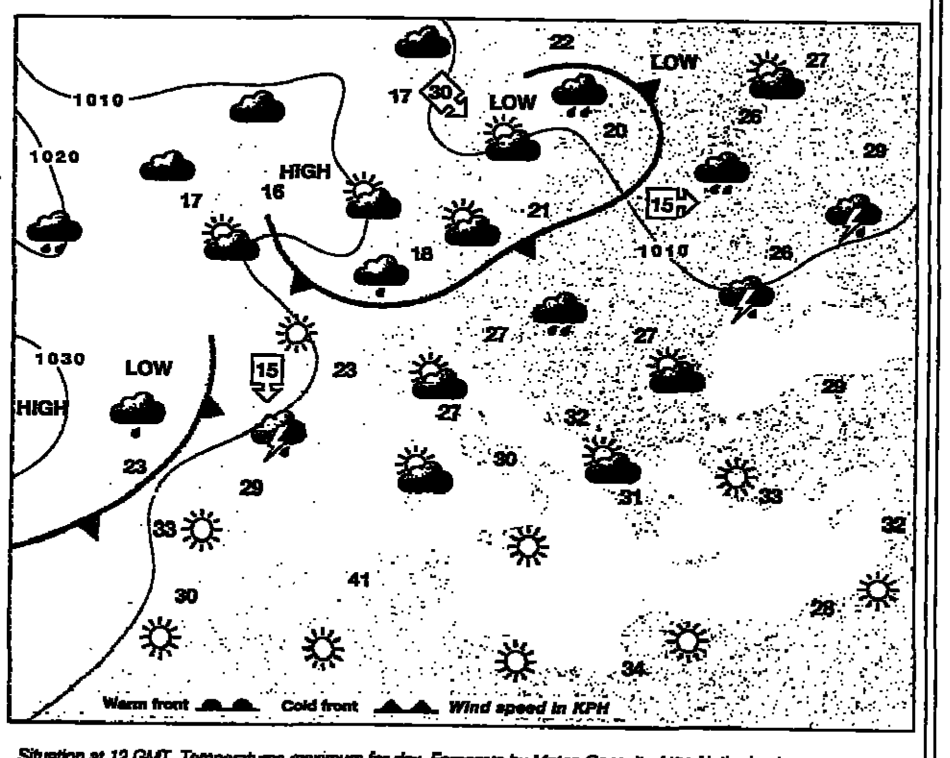
FT WEATHER GUIDE

Europe today

Russia will be warm and humid with widespread showers and thunder storms.
The areas near the Alps and Pyrenees will have a few heavy thunder storms in the afternoon.
Low pressure will remain over Scandinavia, producing widespread rain clouds and thunder.
Cool, unsettled weather to the west of this system will move into western Europe. It will be cloudy with occasional sunny periods. Scattered showers will develop.
It will be sunny and warm south of the Alps and Pyrenees.
North-east Spain may have occasional thunder storms.

Five-day forecast

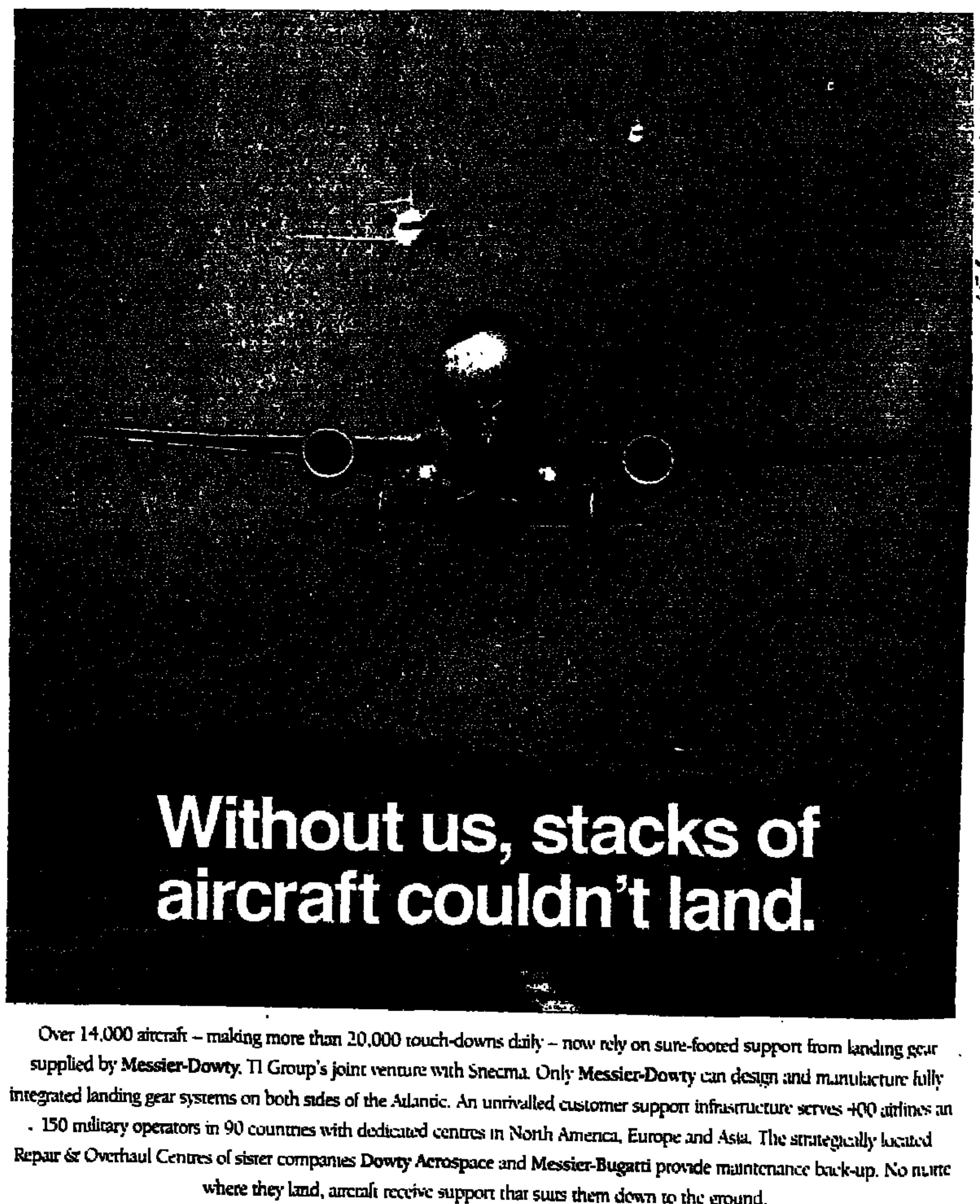
Rain and heavy thunder storms will shift slowly south towards Italy and the Balkan countries. Mountainous areas may have local flooding.
The Iberian peninsula, Turkey and Greece will stay sunny and warm.
Western Europe will be unsettled in places.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	sun 35	Caracas	fair 32	Faro	fair 27	Madrid	fair 28	Rangoon	shower 30
		Belfast	fair 18	Cardiff	cloudy 18	Frankfurt	fair 22	Majorca	cloudy 28	Reykjavik	cloudy 8
Abu Dhabi	sun 42	Belgrade	shower 28	Casablanca	fair 24	Geneva	fair 25	Malta	sun 31	Rio	shower 29
Accra	rain 28	Berlin	shower 19	Chicago	thund 27	Gibraltar	fair 29	Manchester	shower 17	Rome	sun 29
Algiers	fair 30	Bermuda	fair 28	Cologne	shower 19	Glasgow	cloudy 17	Manila	cloudy 38	S. Frsco	sun 26
Amsterdam	fair 17	Bogota	fair 19	Dakar	shower 29	Hamburg	cloudy 15	Melbourne	shower 13	Seoul	fair 30
Athens	fair 31	Bombay	rain 33	Dallas	thund 34	Helsinki	shower 22	Mexico City	fair 30	Singapore	cloudy 32
Atlanta	thund 31	Brussels	cloudy 19	Delhi	sun 38	Hong Kong	rain 27	Miami	thund 33	Stockholm	shower 20
B. Aires	rain 12	Budapest	thund 27	Dubai	sun 45	Honolulu	fair 31	Milan	shower 24	Strasbourg	shower 22
B.ham	cloudy 16	C.hagen	cloudy 16	Dublin	shower 17	Istanbul	fair 29	Montreal	fair 27	Sydney	shower 14
Bangkok	fair 39	Cairo	sun 38	Dubrovnik	fair 29	Jakarta	fair 32	Moscow	shower 21	Tangier	fair 28
Barcelona	fair 24	Cape Town	sun 20	Edinburgh	cloudy 17	Jersey	shower 16	Munich	fair 22	Tel Aviv	sun 32
						Karachi	fair 38	Nairobi	fair 25	Tokyo	rain 26
						Kuwait	fair 46	Naples	sun 29	Toronto	shower 21
						L. Angeles	fair 24	Nassau	thund 32	Vancouver	fair 21
						Las Palmas	fair 25	New York	fair 26	Venice	fair 25
						Lima	fair 26	Nice	fair 27	Vienna	cloudy 24
						Lisbon	cloudy 23	Nicosia	fair 30	Warsaw	rain 21
						London	fair 19	Oslo	rain 17	Washington	fair 27
						Lux.bourg	shower 19	Paris	cloudy 21	Wellington	rain 16
						Lyon	fair 26	Perth	fair 21	Winnipeg	fair 21
						Madeira	cloudy 24	Prague	shower 21	Zurich	fair 20



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FINANCIAL TIMES
COMPANIES & MARKETS

Monday June 16 1997 Week 25

IN BRIEF

Strong sterling hits British Steel

British Steel is expected today to provide further evidence of the harm the rise in sterling is doing to UK manufacturers by announcing profits for the last year of less than half the £1.1bn ($1.8bn) it made in 1995-96. The company has been among the most vociferous of UK manufacturers arguing that sterling's strength is hurting exporters. It said last month that the rise in the pound of more than 20 per cent against the D-Mark since last summer was threatening millions of jobs in Britain. Page 20

Boost for European junk bond market
Europe's fledgling high-yield bond market will receive a fillip this week when Eco-Bat Technologies, the continent's largest lead recycler and producer, launches an issue of 10-year sterling bonds to raise £65m ($106m). The issue will be the fifth on the nascent market since Geberit, a Swiss sanitary firm, launched DM160m ($92m) of 10-year bonds in March. Page 20

French post office defends move
The French post office wants to create a joint venture with an insurance company as part of a plan to begin selling car, household and other non-life insurance products from early 1999. The post office's move last week triggered criticism from French insurers, with the country's 50,000 general agents claiming it could threaten their jobs. A post office executive argued that its action was "defensive" in view of the explosion in the marketing of non-life insurance products by banks and other institutions. Page 21

Amer sale to Lord Moyne cleared
The biggest shareholder in Amer, the Finnish sporting goods group which owns the US-based Wilson brand, said approval had been given to sell a majority stake in the group to Lord Moyne, the UK investor. Mr Heikki Kauppi, the secretary-general of the Finnish Association of Graduate Engineers, one of four academic institutions which hold a 91 per cent voting stake in Amer, said a rival approach from Norvestia, Finland's largest listed investment company, would not be considered. Page 21

Southern replaces Cepa chief executive
Mr Stewart Elliott, chief executive of Consolidated Electric Power Asia in Hong Kong, has left six months after Southern Company of the US seized control. The US electricity group is replacing Mr Elliott with Mr Raymond Hill, chief financial officer at Southern Energy, a subsidiary of Southern Company, which bought Cepa in January. Southern attributed the switch to a shift in culture at the company. Page 21

Shipbroker plans London listing
Seascope Shipping, a shipbroking and consultancy group, will become only the second quoted shipbroker on the London Stock Exchange after a listing this summer. It handles the sale and purchase of second-hand ships and acts for oil companies and shipowners in arranging the chartering of tankers and offshore oil industry support vessels. Page 20

Rule change lifts German repo market
Germany's market in D-Mark securities repurchases (repo) – an important financing instrument for banks and institutions – could double in size over the next two years from DM170bn ($98bn) as a result of the freeing of the transactions from minimum reserve requirements. This would put the German market on a par with France, which has a repo market totalling some DM340bn. The total world market in repos – agreements to sell and then repurchase government bonds – is around DM4,500bn, nearly half of which is in the US. Page 21

Companies in this issue

ket Statistics http://www.FT.com

New digital phone system plan

Mannesmann to combine fixed and mobile services

By Ralph Atkins and Daniel Bogler in Bonn

Mannesmann, the German industrial group, is drawing up plans to offer Europe's first mass-market digital "multimode" telephone service combining mobile and fixed networks.

The new service – expected to be available in Germany next year – would enable customers to use a single phone as both a cordless telephone at home and a mobile elsewhere.

The plan from Mannesmann, which expects to invest DM3bn-DM4bn ($1.7bn-$2.3bn) in telecommunications in the next five years, highlights the rapid pace of change in the German telecoms market, which becomes fully liberalised in January.

It will set Mannesmann against Viag Interkom – a joint venture between British Telecommunications and Viag, the Munich-based conglomerate. Viag Interkom had intended to make up for a late entry into the market by exploiting technology linking mobile and fixed networks.

But Mannesmann, which already has 2.5m customers using its D2 digital mobile network – Germany's largest – expects to have a national mobile/fixed service in place well ahead of its Munich rival.

Mr Peter Mihatsch, Mannesmann board member with responsibility for telecoms, said: "From a technical point of view this is steam-age – although to a layman it might seem wonderful."

The new service would use equipment working on both the Dect European digital standard for cordless telephones and GSM, the European mobile standard. Multimode handsets are being developed by all the main manufacturers. The plan's disclosure defies industry expectations that Mannesmann would focus on winning lucrative business clients. "We will concentrate on the private customer as much as we concentrate on business customers," Mr Mihatsch said.

But Mannesmann is not expected to merge Mannesmann Mobilfunk, which runs the D2 network, and Mannesmann Arcor, its fixed net business. Arcor is 49.8 per cent owned by a consortium led by Mannesmann but including AirTouch and AT&T of the US and the Unisource alliance.

The remaining 50.2 per cent is held by Deutsche Bahn, the German railway operator. Mobilfunk is 65 per cent owned by Mannesmann and 35 per cent by AirTouch.

The different shareholdings would make merger difficult and Mr Mihatsch argued it would also have distracted management at Mobilfunk. Having two companies, he added, would not prevent the marketing of joint services which will achieve costs savings by using the same infrastructure and outlets.

Mr Mihatsch relinquishes his job as Arcor general manager later this month to concentrate on developing telecommunications activities worldwide.

But he said he would also be looking to increase synergies between Mannesmann's telecommunications activities.

The sector last year generated operating profits of DM947m, up from DM464m in 1995, which more than offset Mannesmann's losses in its traditional "tubes and trading" activities and a weak performance in engineering.

New chief looks beyond European Union for growth

Merloni sets tough target for profits

By Peter Marsh

Merloni Elettrodomestici of Italy, Europe's fourth-largest maker of domestic appliances, has set tough targets for improving profits and shareholder value as it attempts to combat difficult sales conditions across the continent.

Mr Francesco Caio, Merloni's new chief executive, said he wanted to increase operating profit from 3.5 per cent of sales last year to 5 per cent, while return on equity should increase from less than 10 per cent to 11-13 per cent.

Merloni, best known for its Indesit, Scholtes and Ariston brands of fridges, cookers and washing machines, is suffering from weak demand in its main markets across Europe.

The company's targets were revealed as Electrolux, one of the world's largest household appliances companies, said last week it was cutting 12,000 jobs in a restructuring to raise profitability.

Whirlpool of the US, which shares top place with Electrolux, has warned that sales values across the industry in Europe will fall in 1997 for the fifth year.

Mr Caio, who was brought into the family-controlled company in January as its first "outsider" chief executive, said the new performance measures should be attained either this year or next.

In his first newspaper interview since starting his job, Mr Caio said the financial targets were part of his plan "to position the company for continued profitable growth".

Mr Caio, 39, previously worked for Olivetti, the troubled Italian information technology company, which he ran as chief executive for just three months last year.

He was recruited to Merloni by Mr Vittorio Merloni, chairman and son of the company's founder. Mr Merloni had been at the helm for 25 years, during which time it earned a reputation as one of Italy's most successful manufacturers.

Last year Merloni, which was founded in the 1930s and went public in 1987, had sales of L2,508bn ($1.47bn), with net profits of L13.3bn. Some 70 per cent of the shares are held by interests controlled by the Merloni family.

Mr Caio said he wanted to expand Merloni's sales outside the European Union, from 28 per cent last year to some 35 per cent by the end of the century.

Mr Caio said he thought the company had too much of its manufacturing in Italy and indicated Merloni might be prepared to shift production from its home country, where it has 70 per cent of its production capacity and 64 per cent of its 8,000 employees.

The company is looking at opening plants in eastern Europe. Merloni is replacing all its 3,000 appliances with half the number of new ones by the end of 1998 at a cost of some L300bn.

Whizzkid, Page 9

Francesco Caio is pressing improve Merloni's performance

Electricidade's shares tipped to soar on first day

By Peter Wise in Lisbon

Shares in Electricidade de Portugal are forecast to make exceptional gains when the national power utility begins trading tomorrow.

But the initial public offering – Portugal's biggest so far – is widely considered to have been priced too low.

Analysts expect Portugal's Socialist government to announce the final price today at Es2,250 a share, the maximum limit of the Es1,750-Es2,250 range announced earlier. But even that would be substantially below market value, according to analysts.

"Even at the top end of the price range the government is short-changing itself by Es45bn [$259m] at the very least," said a Lisbon analyst. "It could probably have easily raised Es90bn more from this offering by setting a price closer to EdP's real value."

The maximum price in the range values EdP at Es1,350bn and would raise Es405bn from today's offering of 30 per cent. But analysts calculate the real value of the company, Portugal's biggest, at Es3,150-Es3,400 a share, 40-51 per cent higher than the government's maximum.

Brokers said international fund managers were already offering Es700 a share more than the government's maximum price on Friday in a grey market for EdP shares which developed in London before today's global offering.

According to Lisbon bankers and analysts, the government has bowed to pressure from Goldman Sachs, one of the global co-ordinators, to keep the price low. "This suggests the government lacks an experienced ear close to the market," said a dealer.

The finance ministry said the range provided for the fixing of "a fair price that balances the need to protect the interests of the state with the legitimate interests of citizens and investors".

Partly because of the low price, the EdP offering has attracted record demand. More than 750,000 small investors, 7.5 per cent of the population, have applied for shares. Analysts expect them to receive only about 2.5 per cent of the shares they have ordered because of massive oversubscription.

"If you want to create popular capitalism and keep investors happy, setting a low price like this is exactly the way to do it," said a Lisbon analyst. "Small savers will be able to sell off the shares to institutions almost immediately at a very substantial gain."

The huge demand means institutions will also receive fewer shares than they ordered, bankers said.

Book-building closed in London last Monday, four days ahead of schedule, because the offer was so heavily over-subscribed.

World stocks, Page 33

Computer groups aim to bring PC technology to TV

By Raymond Snoddy

Executives from three large US computer groups yesterday launched a campaign to persuade the European television industry that it needs PC technology for its development.

The DTV group, which brings together Intel, the microprocessor company, Compaq Computer and Microsoft, the software group, believes PC technology can ultimately deliver better quality pictures for television and an additional audience for programmers, not least on computer screens in the office.

Mr Avram Miller, Intel vice-president, said: "We don't see it as the computer versus the television industry at all. We believe our understanding of the technology will be to the benefit of all parties, including the content industries."

The DTV group has outlined its ideas to the National Association of Broadcasters conference in the US. Yesterday it set out the advantages of a closer relationship between the PC and the television screen at the biannual International Television Symposium in Montreux, Switzerland. The same arguments will be presented later this month to the Japanese television industry to build momentum for a convergence of technologies.

Mr Craig Mundie, senior vice-president of the consumer platform division of Microsoft, said: "We are not telling people the only place you can watch television is on your PC. What we are saying is that the PC in some form must fight its way into these intelligent appliances [such as TV sets]. There is no other place to find the computer technology needed to provide advanced capabilities."

Ms Laurie Frick, vice-president for emerging markets in Compaq's consumer division, said the company would launch in Europe next year a top-of-the-range PC with full multimedia capacity and a 36-inch digital display screen. Such a system is already being sold in the US for $5,000.

Apart from such equipment, DTV believes there will have to be PCs that are "TV-enabled", and TV sets that are internet-enabled. Mr Miller said the computer world saw rapid change as second nature while the TV set had not changed much in 20 years.

"TV sets got bigger, they didn't get better," he said. "We believe it's inevitable that this technology [computers] is going to be part of the television and broadcast world."

ICI slashes fertiliser prices

By Maggie Urry in London

The UK's largest fertiliser manufacturer, ICI Fertilizers, has slashed prices for Nitram, its brand of benchmark ammonium nitrate fertiliser, blaming cheap Russian imports.

The price to farmers will drop from a level of about £125 ($204) a tonne to £110 or even less from this morning.

On Friday afternoon, ICI Fertilizers telephoned Cargill and Dalgety, its two leading UK customers, to agree prices for the new selling season.

Mr Stuart Beer, commercial director of ICI Fertilizers, said he had offered them £115 a tonne but they had argued for less. Farmers can buy imported fertiliser at about £90 a tonne.

ICI Fertilizers is the largest producer in the UK market, making 1m tonnes a year, of which some is exported. Kemira, the Finnish group, and Hydro, part of Norsk Hydro, each produce about 500,000 tonnes a year. They are expected to follow ICI Fertilizers' pricing lead.

Imports are forecast at 900,000 tonnes for the 1996-97 season. Usage is about 2.4m to 2.5m tonnes, suggesting potential supply exceeds demand by about 400,000 tonnes. Mr Beer said the Russian imports and the excess stock overhang had disrupted the market.

The European Union had imposed a minimum import price on Russian fertilisers to prevent dumping after a volume limit on imports had not worked.

The European Commission also launched an anti-dumping investigation into Russian imports on May 29, which is expected to be completed by the end of August.

Mr Beer said he hoped it would result in higher duties or a tax on the imports.

This is the first time since 1991-92 that the selling price at the beginning of the season has been lower than at the start of the previous season. The fall to £110 takes prices down to the starting level three years ago.

BG awaits report on pipeline fees

By Robert Corzine

The long-running battle between British Gas and its regulator over price controls enters a new phase this week with the publication of the Monopolies and Mergers Commission report into proposed pipeline fees for the Transco monopoly.

The lengthy report is expected to cover a number of complex issues, but the initial focus of attention will be the MMC's judgment on Ofgas's proposal for a big one-off cut in gas transportation prices. Ms Clare Spottiswoode, the Ofgas director general, wants an initial cut that would translate into £28 off the average household gas bill of about £350 ($570) a year.

BG executives claim that a price cut of that size would undermine the reliability of the pipeline system. It would also mean a £400m reduction in after-tax cash flow and almost certainly lead to a deep cut in BG's dividend. Ms Spottiswoode, however, believes substantial costs can be safely taken out of Transco even though the company has undergone a big restructuring in recent years with the loss of thousands of jobs.

Although publication of the report will be seen as a milestone in the bitter row, few industry executives or analysts believe it will give a clear-cut victory to either side. "It will almost certainly deliver a messy fudge," said one. Nor do they expect the report to give complete regulatory certainty to BG.

But both sides are expected to claim some sort of victory. BG executives say they will have been justified in asking for an MMC inquiry if the panel recommends a more modest price cut. Although BG has strongly opposed some of Ofgas's proposed changes in the way the company is regulated, executives say they are less concerned with regulatory theory than with the financial impact of the proposals.

Ms Spottiswoode is not legally obliged to accept the MMC's findings, and has previously said that she may be selective in implementing them. But if she strays too far from the findings BG may mount a legal challenge, although the grounds on which it can ask for judicial review are limited. If she accepts the report's recommendations in full, then BG will have no option but to go along with it.

Although Ms Spottiswoode is an independent regulator, her reaction to the MMC report may be influenced by political concerns. The UK government is known to be concerned at the lack of accountability of the utility regulators. Although a wholesale restructuring of the regulatory system appears some way off, government advisers say the accountability issue could come to the fore much earlier.

The publication of the MMC report will raise questions about the future of Mr Philip Rogerson, BG's deputy chairman. His main role over the past year has been to lead the MMC effort, and industry observers say they would not be surprised if he decided to leave BG once the Transco price control dispute had been resolved.

Eco-Bat £65m issue lifts Euro junk bonds

By Samer Iskandar

Europe's fledgling high-yield bond market will receive a fillip this week when Eco-Bat Technologies, the continent's largest lead recycler and producer, launches an issue of 10-year sterling bonds to raise some £65m.

The issue will be the fifth to hit the nascent European high-yield bond market since Geberit, a Swiss sanitary firm, launched DM160m (£56.7m) of 10-year bonds in March.

Two other deals were launched in the D-Mark sector by Exide, a leading battery maker, and Impress, one of Europe's largest aluminium packaging companies.

The first sterling high-yield issue was launched last month by Castle Transmission, the television company that has taken over the BBC's transmission network.

"There was a lot of excitement about this [Eco-Bat] issue," said a banker who attended a two-day conference on high-yield bonds organised by Bankers Trust, the lead manager. "Investors liked the environmentally-friendly story."

Eco-Bat has 40 per cent of the European lead recycling market and is the dominant producer, with 25 per cent.

Proceeds from the bond issue will refinance £40m remaining from a bank loan arranged by Chase Manhattan, now partly amortised.

Although the bond's total cost is unlikely to be lower than that of the loan, the company will gain flexibility in its use of the funds from the *in fine* amortisation, where all the principal is repaid at maturity.

The bonds will also provide about £25m of new cash, which will finance the company's operations and potential expansion.

Eco-Bat is the result of two waves of European acquisitions by its controlling shareholder Quexco, the largest lead recycling company in the US.

In 1994, it bought three lead producing and recycling plants in the UK and France from Shell, the oil company.

This was followed in 1996 by the purchase of further plants in France, Germany and Austria from Metallgesellschaft, the German metals group. Two Italian plants were also bought that year from ENI, the oil and gas group controlled by the Italian government.

Other shareholders in Eco-Bat include Apax Partners, the venture capital fund, and the private equity divisions of Bankers Trust and HSBC.

The issuing syndicate, led by Bankers Trust, will also include Chase Manhattan and HSBC.

High-yield bonds are speculative debt securities issued by companies with no credit ratings, or rated below rating agencies' investment grade.

In return for the higher default risk, they reward investors with substantial margins over benchmark interest rates. Castle Transmission's unrated issue – as is Eco-Bat's – was priced to yield 1.95 percentage points over UK government bonds, or gilts.

FT Guide to junk bonds, Page 9

British Steel profits to show steep fall

By Peter Marsh

British Steel is expected today to provide further evidence of the harm the rise in sterling is doing to UK manufacturers by unveiling profits for the last year less than half the £1.1bn ($1.8bn) it made in 1995-96.

The City consensus is that the company's pre-tax profits for the year to March 31 will be about £410m, although estimates vary from £380m to £460m. Sales are expected to be more than £7bn.

British Steel has been among the most vociferous of UK manufacturers arguing that sterling's strength is hurting exporters.

It told MPs last month that the rise in the pound of more than 20 per cent against the D-Mark since last summer was threatening millions of jobs in UK factories and related industries.

To bring costs under control, the company is poised to accelerate job reductions in its worldwide workforce of some 50,000, of which four fifths are in the UK. It has in recent years been reducing its headcount by between 500 and 1,000 a year and reckons this figure will be exceeded over the next few years.

Sir Brian Moffat, British Steel's chairman, is expected today to point to stronger demand in many of its export markets, particularly in continental Europe, as helping the company's longer-term position.

It has recently increased prices of many products by up to 8 per cent, taking effect from the end of this month, in a bid to claw back revenue lost from overseas sales as a result of the stronger currency.

However, many analysts are pencilling in a further slide in earnings this year to perhaps half the figure for 1996-97. Mr David Larkam, an analyst at Albert E Sharp, said : "Long-term steel is not a market where you will see big returns."

Mr Terry Sinclair, an analyst at Salomon Brothers, said: "The company is in an awful situation. Its revenues are running away, while its costs are fixed. It's very difficult for the company to create value."

The company's share price has reflected this sentiment: it has underperformed the rest of the stock market by nearly 40 per cent since March last year.

NEWS DIGEST

Abbey in talks with Cater Allen

Abbey National, the UK bank, is believed to be in talks with Cater Allen about acquiring the former discount house and merchant banking group for up to £200m ($326m). Although Abbey National refused to comment on what it described as "market rumour," it is understood negotiations have been under way and an announcement could come soon. Earlier this month, Cater shares rose sharply to 562½p after it announced it was in talks with an unnamed company. On Friday they closed at 550p.

Mr Gareth Jones, head of Abbey's treasury division, was on a business trip abroad over the weekend but he is thought to have been leading the talks for the bank.

Cater Allen, which owns the execution-only broker City Deal, and employs 500 people in Jersey, the Isle of Man, London, and Romford, reported a fall in pre-tax profits from £9.4m to £5.6m for the six months to October 31.

The talks come amid consolidation among former discount houses, which have lost their exclusive right to act as intermediaries in the money markets under reforms to the gilts market.

Abbey is said to be particularly interested in a string of small businesses within Cater Allen. These include its offshore investment operation and Cater Deal. *Jim Kelly*

Chiquita may bid for Fisher

Chiquita Brands, the US fresh-produce group emerged yesterday as the likely bidder for Albert Fisher, the UK food processing group.

Albert Fisher declined to comment on reports that Chiquita is holding takeover talks. Chiquita is the world's largest banana supplier and is said to be keen to build up its European business.

Albert Fisher said on Friday it had received an approach that could lead to an offer for the company. Earlier, its shares had risen sharply, with a block of 5.2m, almost 1 per cent of its issued capital, changing hands at 34¾p. They closed 12¼p higher at 46½p. *Steve Thompson*

BIB names managing director

Mr Peter van Gelder, the managing director of Teletext since 1993, has been appointed managing director of British Interactive Broadcasting. BIB is the joint venture set up by British Sky Broadcasting, British Telecommunications, Midland Bank and Matsushita, to deliver digital inter-active services to viewers by satellite.

Mr Sam Chisholm, chief executive of BSkyB, will be chairman of BIB, which is scheduled to begin its home shopping and home banking operations next summer, a few months after the launch of a digital satellite television service. *Raymond Snoddy*

Nobo founders make £2m

Mr Reginald Barr and Mr Peter Kent, the two founders of Nobo, have each made more than £2m for themselves and their families from the sale of most of their stakes in the UK office products group to rival Acco, as part of a recommended cash offer.

Acco has bid 140p a share, valuing Nobo at £25.6m. Mr Barr, together with his family, has sold 1.61m shares, a 9.09 per cent stake, leaving him with an interest of about 3.59 per cent. Mr Kent, with his family, has sold 1.56m shares, a 8.8 per cent stake, and retains less than 1 per cent. Both are non-executive directors and sold their shares at the offer price.

The shares, which closed unchanged on Friday at 138½p, traded at 115½p before the two companies announced they were in talks in late March.

RWE to sell unit to Danes

RWE, the Essen-based industrial conglomerate, has reached agreement in principle to sell its Talkline mobile telephone service operation to Tele Danmark, the Danish telecommunications group for an undisclosed sum.

RWE said it was focusing its telecommunications activities on o.tel.o, a joint venture with Veba, the Düsseldorf-based industrial group. Talkline, which has a turnover of more than DM1bn (£300m) and in excess of 600,000 customers, has agreements with retailers and network providers to provide mobile telephone services such as billing. *Ralph Atkins, Bonn*

Seascope will be second London listed shipbroker

By Charles Batchelor, Transport Correspondent

Seascope Shipping, a shipbroking and consultancy group, will become only the second quoted shipbroker on the London stock exchange after a listing this summer.

The company increased pre-tax profits to £1.78m ($2.9m) from £530,000 in the year ended December 1996, on turnover up from £5.3m to £6.6m. It handles the sale and purchase of second-hand ships and acts for oil companies and shipowners in arranging the chartering of tankers and off-shore oil industry support vessels.

Seascope was established in 1972 and acquired by Henry Ansbacher, a merchant bank, 10 years later. In 1989, the present management headed by Mr Tom Young, chairman and chief executive, staged a management buy-out which valued the company at £2.3m.

No details were available of the number of shares to be offered or the likely valuation of the company, but H Clarkson, the only other pure shipbroking company with a listing has a p/e of 9.3 and is valued at £22.5m. E A Gibson, another leading shipbroker is part of Hunting, a listed aviation, defence and oil group.

Seascope plans to seek a listing in the stock exchange's support services sector, where companies on average enjoy a higher rating than those in the transport sector. The issue is sponsored by Guinness Mahon, with Bell Lawrie White acting as broker.

Mr Young said he was "confident of further earnings growth" and pointed out that part of Seascope's revenues were predictable as they came in the form of commission on long-term charters and on the future construction of ships.

Seascope plans to use the listing to reduce its debt, to expand its shipping consultancy activities and to provide share incentives to employees. The company employs 50 people, including 31 brokers.

It expanded its offshore activities in 1992, when it acquired Jacobs Offshore for £5.25m. As well as arranging the sale of second-hand ships, the traditional activity of the shipbroker, Seascope advises shipowners on the ordering of new vessels, including the best timing and the merits of the different shipyards.

It has appointed its first two non-executive directors: Sir Peter Cazalet, a former deputy chairman of British Petroleum; and Mr Sandy Marshall a former managing director of P&O and former chairman of Maersk, a Danish shipping group.

3i, the development capital group, has 35 per cent, acquired at the time of the buy-out. It plans to retain a holding after flotation.

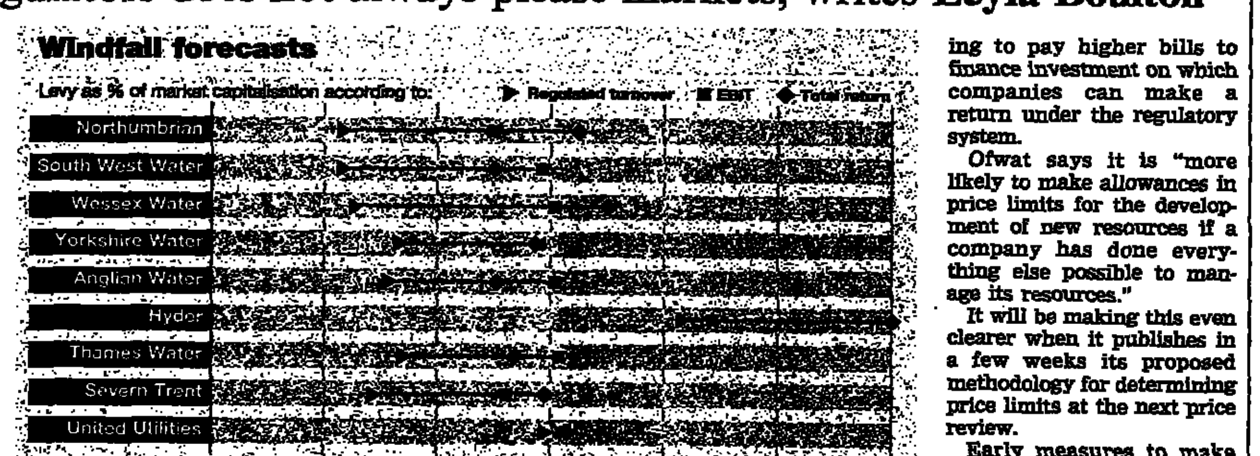
UK water companies abandon their fight against the utilities windfall tax

But pleasing regulators does not always please markets, writes Leyla Boulton

The water industry has abandoned its fight against the windfall tax on utilities which Mr Gordon Brown, the Chancellor, will unveil on July 2. Instead, it is concentrating on damage limitation.

Nowhere is this clearer than in last week's submission to the Treasury by Anglian Water.

Anglian, which lead the sector's pre-election fight against a tax expected to gouge £5bn from the profits of privatised utilities, has now told the government it wants the levy to be imposed all in a single hit, instead of payable by instalments.



To maintain "investor confidence" at home and abroad, it also wants the tax presented not as a punishment but as a "means to allow taxpayers to participate" in the industry's "unexpected success". And it has appealed for the Anglian region to "receive its fair share" of job creation measures to be funded by the tax.

The effect of the tax upon the water companies will depend on how much money is raised, which companies pay it, and how the liabilities are calculated.

The chart shows how the expected £5bn tax on the utilities would affect water and sewerage companies, under three different methods of calculating the levy.

The three options studied by SBC Warburg are: earnings before interest and tax (EBIT); the turnover of a company's regulated water and sewerage business; and total returns to shareholders (dividend and share price growth) relative to the market.

All companies say they will have to borrow money to pay the tax, which will in turn affect their cost of capital. As a result, those likely to be most affected by a hefty tax will be those with the highest debt-to-asset ratios, such as Hyder, with gearing of 100 per cent.

The figures also illustrate how different methods of levying the tax would favour some companies more than others. A tax on total returns would be more beneficial to Anglian than Hyder, which would do better under an EBIT levy.

Under the SBC Warburg range of scenarios, a £3bn total levy based on regulated turnover – resulting in a tax bill of £34m for Anglian – would boost Anglian's gearing of 53 per cent by as little as 3 percentage points.

The most onerous tax for the company would be a £10bn total levy spread across all privatised utilities based on EBIT. Translated into a £220m tax bill, this could increase Anglian's gearing to 75 per cent.

Despite government assurances to the contrary, companies say the tax could also result in higher bills for customers by reducing Ofwat's scope for price cuts at the next price review in 1999.

But Mr Ian Byatt, Ofwat's director-general, has insisted that the big dividend increases announced by utilities companies in the past two weeks will reinforce the view that they can easily afford the tax.

But the preliminary results for 1996-97 unveiled in the past three weeks have also underlined a wider dilemma for the sector.

The water industry is one of the most heavily regulated, because it is the least open to competition and is subject to the largest number of environmental and public health controls.

Some of the companies which have done most to please the regulator have received the coolest reception from the stock market over the past two weeks.

Yorkshire Water and Severn Trent gave impressive performances on tackling leakage.

Anglian was even encouraged last month to take over Hartlepool Water, a small neighbouring supply company, because of its high standing with Ofwat.

Severn Trent announced it was spending £220m extra on so-called demand management – fixing leaks and curbing supply – over five years to 1999.

Mr Vic Cocker, Severn Trent's chief executive, said that spending more than it could recoup from customers under its existing price limits would translate into shareholder value in the longer term.

He believes satisfied customers would be more willing to pay higher bills to finance investment on which companies can make a return under the regulatory system.

Ofwat says it is "more likely to make allowances in price limits for the development of new resources if a company has done everything else possible to manage its resources."

It will be making this even clearer when it publishes in a few weeks its proposed methodology for determining price limits at the next price review.

Early measures to make most efficient use of existing supplies would help prepare Severn Trent for a longer-term future where its water resources could be cut by a third as a result of global warming.

But the company's shares still fell on the day of the announcement.

Mr Robert Miller-Bakewell, water analyst at NatWest Securities, said financial markets care more about short term returns than predictions of creeping climate change.

In contrast, companies such as South West Water and Hyder, with relatively high leakage rates and no planning for climate change, have been favoured by investors.

Their shares rose on the day they reported their results and future plans.

What pleased the market was their success in growing their non-regulated business in the face of a tightening squeeze by Ofwat on the profits they make from their water and sewerage operations in the UK.

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COMPANIES AND FINANCE

Rule change lifts German repo market

By Andrew Fisher in Frankfurt

Germany's market in D-Mark securities repurchases (repo) – an important financing instrument for banks and institutions – could double in size over the next two years from the present DM170bn ($98bn) as a result of the freeing of these transactions from minimum reserve requirements, banking sources said.

This would put the German market, centred on Frankfurt, on a par with France, which has a repo market totalling some DM340bn. The total world market in repos – comprising agreements to sell and then repurchase government bonds – is around DM4,500bn, nearly half of which is in the US.

Following the Bundesbank's decision to free repo dealings from the 2 per cent reserve levy earlier this year, banks are moving their D-Mark business from London to Frankfurt. Deutsche Bank is market leader with nearly 25 per cent of D-Mark repo business.

Mr Detlef Bindert, Deutsche's global head of money market repos, said the bank's concentration of its DM40bn of outstanding D-Mark repo operations in Frankfurt was of "colossal significance" for the German capital and money market ahead of the single currency, which would see increased competition between financial centres in continental Europe.

Repo business, in which securities portfolios are used to obtain cheaper financing than in money markets, had previously been inhibited in Germany by the reserve levy. The bank said in January it would shift the business back to Frankfurt. Its total worldwide repo business in major currencies exceeds DM200bn.

Mr Bindert said the move would enhance the standing of Germany's capital market among continental European markets. The French market was "a very developed and efficient repo market," while the size of Italy's market, at just over DM1,000bn, mainly reflected the country's high indebtedness. The other main market is in yen.

He said the potential for the German repo market could be seen in the fact that it was equivalent to only around 17 per cent of overall government debt, compared with around 40 per cent in both France and the US.

Repos carried out among banks and institutions, also known as sell/buyback transactions, are different from the regular securities repurchase (repo) transactions between German banks and the Bundesbank. The central bank had been concerned that the freeing of interbank D-Mark repos from minimum reserves could narrow the basis of its monetary policy, but banking sources said this had not turned out to be the case.

Southern replaces Cepa head

By Louise Lucas in Hong Kong

There had been talk of friction between Gordon Wu (above) and Stewart Elliott Reuter

Mr Stewart Elliott, chief executive of Consolidated Electric Power Asia in Hong Kong, has left six months after Southern Company of the US seized control.

The US electricity group is replacing Mr Elliott with Mr Raymond Hill, chief financial officer at Southern Energy, a subsidiary of Southern Company, which bought Cepa in January.

Southern Company attributed the switch to a shift in culture at the company.

"The entrepreneurial culture that Mr Elliott had implemented and which has worked well here for Cepa requires, we believe, to be shifted into a more team-based approach in order to take Cepa to the next level," it said. "The team-based approach is the way we intend to run our international subsidiaries."

Analysts said the departure of Mr Elliott, who along with Mr Gordon Wu, chairman, was responsible for the creation and direction of Cepa, suggests Southern is pushing for more control of its acquisition.

Cepa has been run by a handful of people making the decisions, and is known for its aggressive management style. Some analysts said there had been talk of friction between Mr Wu and Mr Elliott.

However, the two will remain in close contact as Mr Elliott is to return to Hopewell Holdings, the infrastructure and property company which spawned Cepa and which is also run by Mr Wu. At Hopewell, Mr Elliott will be responsible for new business development.

Southern paid US$2.7bn for 80 per cent of Cepa, then controlled by Hopewell Holdings and listed in Hong Kong, last October.

French post office defends insurance move

By Andrew Jack in Paris

The French post office wants to create a joint venture with an insurance company as part of a plan to begin selling car, household and other non-life insurance products to its customers from early in 1999.

A senior executive in the post office confirmed that discussions to choose a potential partner were taking place with a number of insurance companies including Assurances Générales de France, which was privatised last year.

If the government approved the plans, he argued that an agreement should be in place before the end of the year, but that it would take 18 months to train staff and install new computer systems before the insurance products could be released in the 17,000 post office branches around the country.

News of the talks last week triggered widespread criticism from French insurers, with the country's 50,000 general agents – self-employed professionals who sell insurers' policies – claiming that the move could place their jobs under threat in the face of the post office's powerful distribution network.

However, the post office executive stressed that these claims were "exaggerated" and argued that its action was "defensive" in view of the explosion in the marketing of non-life insurance products by banks and other rival financial institutions that was already taking place.

Most of France's leading banks now sell non-life insurance contracts through their branch networks and, while this form of distribution currently represents only 4 per cent of the total value of French non-life business, internal post office estimates suggest that this proportion could rise to 25 per cent by 2005.

The executive added that the post office had been authorised since 1991 to sell non-life insurance under its new governing statute, but had respected an informal agreement with the French insurance sector not to sell such contracts until the end of 1996.

Early this year, the post office began talks with five or six potential partners, and that choice has now been narrowed further.

GMF, a civil service mutual insurer, is believed to have been among those consulted. Among the finalists is AGF, which already offered a life insurance product through the post office's branches in 1995.

The FFSA, the country's influential insurance companies association, as well as the AFB, which represents French commercial banks, are both taking legal action in an effort to reduce alleged competition distortions, including tax concessions which they argue benefit the post office's branches for the sale of financial products.

Amer sale to Lord Moyne cleared

By Greg McIvor in Stockholm

The biggest shareholder in Amer, the Finnish sporting goods group which owns the US-based Wilson brand, said that final approval had been given to sell a majority stake in the group to Lord Moyne, the UK investor.

Mr Heikki Kauppi, the secretary-general of the Finnish Association of Graduate Engineers, one of four academic institutions which together hold a 91 per cent voting stake in Amer, said a rival approach from Norvestia, Finland's largest listed investment company, would not be considered.

Norvestia had approached the institutions after they announced last week the FM301m ($57.76m) sale of a 58 per cent voting stake to Lord Moyne, formerly Mr Jonathan Guinness of the Irish drinks group.

Mr Kauppi said a binding contract existed with Lord Moyne which prevented negotiations with others.

Mr Timo Löyttyniemi, Norvestia's managing director, suggested the approach could succeed if Amer's supervisory board used its right to redeem preference shares. This would leave insufficient preference equity for Lord Moyne to gain control.

The four associations hold a combination of K preference shares and regular A shares, giving them voting control with only 12.6 per cent of the equity.

Under the proposed deal, Lord Moyne is to have 58.4 per cent of the votes and a 4.6 per cent equity stake.

Mr Kauppi said he expected the deal, which must legally be completed by September, to be concluded in July. Lord Moyne is likely to become Amer's chairman.

Lord Moyne has also received the go-ahead for his SKr250m ($32.17m) purchase of a controlling interest in Trustor, the Swedish investment company.

The deal had depended on Lord Moyne selling Trustor's stake in Kanthal, the heating wire company, to Mr Per-Olov Norberg, Trustor's main owner. This stipulation, however, was apparently waived after a higher offer for Kanthal was received from Sandvik, the Swedish engineering group. Sandvik said it had bought Mr Norberg's stake, completing its takeover of Kanthal.

INTERNATIONAL NEWS DIGEST

Smith Barney fund manager goes solo

Ms Jessica Bibliowicz, one of the most prominent executives in the US mutual fund industry, has left her position at Smith Barney to try to build a new mutual fund concern from scratch. As head of Smith Barney's funds business for nearly four years, Ms Bibliowicz has run one of the 10 biggest mutual fund operations in the US, and leaves it with $78bn under management. Her departure, to join John A Levin, the New York-based asset management firm, was prompted by a desire for a more entrepreneurial position, she indicated.

Ms Bibliowicz, 37, is the daughter of Mr Sanford Weill, chairman of Travelers, Smith Barney's parent. While her father's position was seen in some quarters as giving Ms Bibliowicz a shot at running Smith Barney one day, it could also have contributed to her decision to leave, according to one person at Travelers. Before moving to Smith Barney, she was head of mutual fund sales and marketing at Prudential Securities.

Ms Bibliowicz was named president and chief operating officer of John A Levin and will lead that company's move into the mutual fund business. The company manages $7.6bn for institutional investors and trusts.

Richard Waters, New York

GAN to delay annual meeting

GAN, the state-owned insurance group undergoing a restructuring package likely to cost at least FFr20bn ($3.4bn), plans to delay its annual general meeting in order to win extra negotiating time with the European Commission. The meeting was due to be held on June 30, but the company has requested a postponement to allow talks over approval of the plan by the authorities in Brussels to be held "in the best conditions".

A condition of the restructuring thrown into doubt by the election of France's new socialist government was to split up GAN and rapidly sell its constituent divisions.

The request has been approved by the French finance ministry, and in line with French legal procedure, GAN's board will be asked at its next meeting on June 17 to seek permission formally for a delay from the head of the Paris commercial court.

Andrew Jack, Paris

Deutsche Telekom China deal

Deutsche Telekom has struck a co-operation agreement with China International Telecommunications Construction Corporation; a subsidiary of the Chinese telecoms ministry, which should see the large German group involved in developing China's telecoms infrastructure and services. Deutsche Telekom has also made a deal allowing its D1 mobile telephone system to be used in six Chinese regions including Beijing and Shanghai.

Ralph Atkins, Bonn

OTE to raise Dr23.7bn

OTE, Greece's state-controlled telecoms operator, will raise Dr23.7bn ($8.6m) to fund new investment through a 7.5 per cent capital increase approved at the weekend. The 6-for-80 rights issue is timed to follow this week's disposal of 12 per cent of the company to domestic and international investors under the Socialist government's partial privatisation programme.

The issue price is likely to be fixed at a 16 per cent discount to last Friday's Dr7,095 closing price, making shares available at Dr6,000 each. This compares with a price of Dr6,600 a share for institutional investors in this week's secondary offering.

OTE decided to launch a rights issue because the entire Dr1.2bn proceeds from the offering will go to the government. But the economy ministry says it will buy its full quota of shares in order to maintain control of just over 80 per cent of the company.

Kerin Hope, Athens

See Markets this Week

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Abbey National Treasury 9⅝% Gtd Bd 2004 L481250.0
Abbott Mead Vickers 7.75p
BATM Advanced Comms $0.05025
British Airways 10⅞% Bd 2008 £108.75
Brunswick $0.125
City Mortgage Rcvbls 1 Mtg-Bckd FRN Feb 2023 Ser 1996-2001 £47.13
Do 2 Oct 2023 Ser 1996-2002 £51.66
Do 3 Class A Mtg Bckd FRN Oct 2023 £50.24
Do Class B £66.76
Do 4 Class A Mtg Bckd FRN Aug 2028 Ser 1997-2001 £54.69
Do Class B £66.76
Do 5 Class A Dfd Int Mtg Bckd FRN Sep 2032 £52.16
Do Class B £77.72
Do 6 Class A Mtg Bckd FRN Mar 2029 Ser 1997-2003 £53.93
Do Class B £66.76
Commerzbank O'seas Fin Gtd FRN 1998 $3844.99
DSL Bank FRN 1998 $3844.99
Dover $0.17
Flash Ser Iota Sec FRN 1998 Y268379.0
Granada FRN 1999 £1720.27
Grand Met Inv 7% Nts Jun 1999 $70.0
Honeywell $0.27
Kinki Nippon Rlwy 3.35% Bd 1998 Y335000.0
Do 3.6% Bd 1999 Y360000.0
Kobe Steel 5.1% Bd 2000 Y510000.0
Lasmo 9½% Nts 1999 £950.0
Lloyds Bank Sb FRN 2004 £35.22
Louisiana Land & Expln $0.06
M & G Inc Inv Tst 1.1p
Do Geared Units 1.1p
Do Package Units 1.1p
Midland Bank Non-Cm Dollar Pf Ser A1 $0.355
Do Ser A2 $0.08875
Do Ser B1 $0.41
Do Ser B2 $0.1025
Do 8⅝% Sb Nts Dec 2004 $6468.75
Northumbrian Fine Foods 0.1p
Pacer Infotec $0.035
Pendeford Mortgages No 1 Class A1 Mtg Bckd FRN 2037 £790.30
Do Class A2 £1588.14
Do Class A3 £1598.11
Do Class A4 £1603.10
Do Class A5 £1645.48
Santander Fin Iss Sb Und Var Rate Nts $4123.44
Sanwa Australia Fin Gtd Fxd/FRN 2004 $1532.47
Sapporo Breweries FRN 1999 Y4044.0
Sara Lee UK 9.43% Gtd Bd 2004 £23575.0
Seagram $0.165
South Africa 9⅝% Nts Dec 1999 $48.125
Thames Asset Global Sec No 1 Class A2 Asset-Bckd FRN 2037 £1598.11
Do Class A3 £1606.08
Do Class B £1677.89
Toda 5% Bd 2000 Y500000.0
Tokyo Elec Power 10½% Nts 2001 C$105.0

■ TOMORROW

Action Computer Supplies 1p
Chase Manhattan Sb FRN 2009 $145.35
Finance One Public 5¾% Sb Cv Bd 2003 $57.50
Hongkong & Shanghai Banking Prim Cap Und FRN (Ser 2) $74.27
Limited $0.12
Royal Bank of Canada Fltg Rate Db 2085 $146.94
Royal Bank of Scotland Und Prim Cap FRN $293.85
Toto 5.7% Bd 1997 Y570000.0
Wigmore Property Inv Tst 0.3p

■ WEDNESDAY JUNE 18

Aquarius 0.85p
Aquarius Plus Cltd Sec FRN 2000 $270.35
BPI Cap Fin Ser A FRN N/Vtg Pf $0.48
Dairy Farm Int (Bermuda) $0.0435
Do (Jersey) $0.0435
Do (Singapore) $0.0435
Gold Int Fin Tranche B FRN 2002 Y311657.0
Hongkong Land (Bermuda) $0.085
Do (Jersey) $0.085
Do (Singapore) $0.085
Japan Airlines 4.6% Bd Jun 1998 Y460000.0
Jardine Matheson (Bermuda) $0.172
Jardine Matheson (Jersey) $0.172
Jardine Matheson (Singapore) $0.172
Jardine Strategic (Bermuda) $0.099
Jardine Strategic (Jersey) $0.099
Jardine Strategic (Singapore) $0.099
Kobe Steel 7.1% Bd 1998 Y710000.0
Lloyds Bank Ser C Var Rate Sb Nts 1998 £161.32
Mandarin Oriental (Bermuda) $0.0465
Mandarin Oriental (Jersey) $0.0465
Mandarin Oriental (Singapore) $0.0465
Mitsui Toatsu Chemicals 5.85% Bd 1997 Y585000.0
Prestwick 0.3p
Reed Executive 1.3p
Sumitomo Metal Inds 5¾% Bd 1997 Y575000.0

■ THURSDAY JUNE 19

BP America 9½% Gtd Nts 1998 £95.0
BPI Cap Fin Ser B Step-up FRN Gtd N/Vtg Pf $0.43
Birmingham Midshires Bldg Scty FRN 2000 £160.68
Dead Sea Works 5% Db 2002 NIS0.2733
DFS Furniture 3.9p
Finsbury Tst 2.2p
DO A N/Vtg 2.2p
Leek Fin No 1 Class A1 Mtg Bckd FRN 2037 £1418.47
Do Class A2 £1626.38
Do Class M £1674.27
Do Class B £1742.33
Mercury Keystone Inv Tst 6.5p
NT & T 8½% Nts 1997 C$85.0
Northern Venture Tst 1.2p
Thailand Int Fd $0.22

■ FRIDAY JUNE 20

Abtrust New Thai Inv Tst 2p
Alcan Aluminium $0.15
American Int $0.10
Assoc British Ports 11⅞% Bd 2011 £593.75
Bailey (Ben) 1p
Bank of Scotland 5.31p
Enron $0.225
Essex & Suffolk Water 3½% Perp Db £1.75
Do 4% Perp Db £2.0
Do 5% Perp Db £2.50
Export-Import Bank of Japan 8¾% Gtd Bd 2001 $437.50
Fleming O'seas Inv Tst 3.1p
Graystone 2.2p
Jupiter European Inv Tst 0.7p
Jupiter Geared Cap & Inc Tst 1999 3.535p
London Securities 2p
Ocean Wilsons 3.75p
Shiloh 3p
Tarmac 2.5p
Thistle Hotels 10¾% 1st Mtg Db 2014 £5.375
UPF 1.7p

■ SUNDAY JUNE 22

Newcastle Bldg Scty 10¾% Perm Int Brg £53.75

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Derby Tst, 1, Connaught Place, W., 11.00
PGA European Tour Courses, The Club House, Stockley Park, Uxbridge, Middlesex, 10.30
S&U, Plough & Harrow, Hagley Road, Birmingham, 11.45
Taylor Nelson, AGM House, West Gate, W., 11.30
Whitbread, The Brewery, Chiswell Street, E.C., 12.00
Whitchurch, 62, Threadneedle Street, E.C., 10.00

BOARD MEETINGS:
Finals:
British Steel
Plysu
Sterling Industries
Wainhomes
Wynnstay Properties
Interims:
Albion
Deltron Electronics
Legal & General Recovery Inv Tst
London Scottish Bank

■ TOMORROW

COMPANY MEETINGS:
Jupiter Geared Cap & Inc Tst, 197, Knightsbridge, S.W., 11.00
Premier Farnell, Royal York Hotel, Station Road, York, 11.30

BOARD MEETINGS:
Finals:
Atlantic Telecom
Business Post Group
Carpetright
Hazlewood Foods
London Merchant Securities
Mountview Estates
Portsmouth & Sunday Newspapers
Tinsley Robor
Wellman
Interims:
Cardiff Property
Eurotherm
Firth Rixson
Hill Samuel UK Emerging
Hunters Armley
ICC Bank
Sheriff Hldgs
Watson & Philip

■ WEDNESDAY JUNE 18

COMPANY MEETINGS:
Aegis Group, 11A, West Halkin Street, S.W., 3.00
Brancote Hldgs, Hilton Hotel, Park Lane, W., 11.30
City of Oxford Inv Tst, 224-226, Tower Bridge Road, S.E., 12.00
Friendly Hotels, New Connaught Rooms, 61-65, Great Queen Street, W.C., 11.00
Hay (Norman), Godiva Place, Coventry, 11.00
Huntleigh Technology, 310-312, Dallow Road, Luton, Bedfordshire, 12.00
Saracen Value Tst, Pacific House, 70, Wellington Street, Glasgow, 12.30

BOARD MEETINGS:
Finals:
Comino
European Motor Hldgs
Masthead Insurance
Sutcliffe Speakman
Swan (John) & Sons
Interims:
City Site Estates

■ THURSDAY JUNE 19

COMPANY MEETINGS:
Abtrust New Thai Inv Tst, 99, Charterhouse Street, E.C., 12.30
Chesterfield Properties, 38, Curzon Street, W., 3.00
Chime Communications, Dorchester Hotel, Park Lane, W., 9.00
Foreign & Colonial German Inv Tst, Exchange House, Primrose Street, E.C., 12.15
Scottish Mortgage & Tst, 1, Rutland Court, Edinburgh, 11.00
Shiloh, Holden Fold, Royton, Oldham, Lancs, 11.30
Slingsby (HC), Victoria Hotel, Bridge Street, Bradford, 10.30
Yule Catto, 23, Great Winchester Street, E.C., 12.00

BOARD MEETINGS:
Finals:
Courts
Cox Insurance Hldgs
Jarvis Hotels
Metrotect Industries
Ptarmigan Int Cap
Symonds
Interims:
Securicor
Sperati (C.A.)
Ushers of Trowbridge

■ FRIDAY JUNE 20

COMPANY MEETINGS:
Finlay (James), The Glasgow Royal Court Hall, 2, Sauchiehall Street, Glasgow, 12.15
Body Shop Intl, Conf. Centre, Wick, Littlehampton, West Sussex, 11.00
Morgan Grenfell, 23, Great Winchester Street, E.C., 11.45
Ocean Wilsons, Painters Hall, Little Trinity Lane, E.C., 10.00
Oxford Molecular, The Magdalen Centre, Oxford Science Park, Oxford, 11.00

BOARD MEETINGS:
Finals:
Banner Homes Group
Interims:
Grainger Tst
Henderson Strata Invs

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

ATHENS STOCK EXCHANGE June 9th - June 13th 1997 — GREECE

ASE INDEX	1625.73	P/E (after tax) 97e/96e	14.7/18.5	GDP (USD bn) 97e	119.06
%Chg (31/12/96)	74.16	EPS GROWTH (%) 97e	21.4	Per Capita Income (USD)	11,450
Yearly High	1755.66	P/E 97e / EPS GROWTH (%) 97e	0.69	Inflation Rate (% Y.O.Y, May '97)	5.40
Yearly Low	932.98	P/CE 97e/96e	11.7/15.2	May 12 M T-Bill rate (%)	9.60
WEEKLY VOL. (USD m)	367.13	P/BV 97e/96e	3.3/3.7	1-Month Athibor (%)	11.76
%Chg (Prev. Wk)	-21.39	Div. Yield (%) 97e/96e	4.2/3.1	GRD/US$	274.12
1 Y Wk Avg. (USD m)	233.37			A.S.E. Market Capitalisation - 13/6/97 (USD bn)	36.49
				IPOs & Rights Issues (in USD m) Jan 1 '97-June 13 '97	576.40

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

One country, two markets

When Baroness Thatcher and Deng Xiaoping agreed on "One country, two systems" as the principle underlying the handover of Hong Kong to China, they probably did not anticipate the arbitrage potential they were creating.

With the handover only two weeks away, the roller-coaster aspects of that opportunity are clearly shown in the chart alongside. The main Hong Kong stock market, as represented by the Hang Seng index, has risen solidly over the past nine months. But it has been outstripped – in volatility at least – by the category of stocks known as China Enterprises or H shares, which are Hong Kong listings of formerly state-owned Chinese enterprises. The legal domicile of these companies remains in China; only the listing is in Hong Kong.

Still more spectacular has been the performance of the "red chips" – Hong Kong subsidiaries of Chinese state-owned enterprises. These companies are legally based in Hong Kong, and are thus governed by the city's tighter accounting and legal framework. Once floated, these entities usually buy assets from their parents.

Between September 1996 and April 1997, red chip shares more than doubled, as many new offerings came to market, invariably heavily oversubscribed. Beijing Enterprises, for example, the investment arm of the Beijing municipal government, saw its share price more than treble last month after its initial public offering was 1,276 times subscribed.

Last week, both H shares and red chips suffered a sharp fall, on fears that Chinese government restrictions on speculation by banks would spill over into the red chip market. Beijing Enterprises dropped 9 per cent in Thursday's trading. The Chinese government is concerned both at overheated domestic markets, and at the risk that assets injected into Hong Kong vehicles by their parents in China are being sold off too cheaply.

The fluctuating fortunes of the red chips encapsulates perfectly the judgments international investors will have to make about China during the next few years.

The survey that accompanies this issue of the FT explores the economic and political prospects for Hong Kong itself as a part of China. But for international investors the biggest opportunities, and the biggest risks, will come from Hong Kong's relationship with the economy on the mainland.

China's huge population, rapid economic growth and rising influence in all world markets – it is already the largest importer of oil after the US and Japan, for example – create a pressing desire to find ways of gaining exposure to its potential. How can investors achieve that exposure safely and profitably in a country where the rule of law, in commercial matters, is still fluid, and where political connections, or *guanxi*, are all-important?

The red chips' success represent the perennial belief, among more optimistic investors, that it is possible to have the best of both worlds. In this case, they hope to combine the *guanxi* of the mainland with the rule of law and regulatory framework left behind in Hong Kong by the departing colonial power.

There is something to be said for this argument. Investors in red chips at least stand a better chance of knowing just what is going on in the companies they own than in inevitably less transparent mainland entities. But, at a deeper level, it is not really possible to mingle disclosure with connections, to combine preferential influence with equality before the law.

Investors who seek to obtain their exposure to mainland China more sedately, by investing in the many Hong Kong companies that do business there, also stand to be affected by the way in which the saga of the red chips unfolds. Red chips and H shares together make up between 10 and 15 per cent of the Hong Kong market's capitalisation. A serious set-back in these stocks would have an immediate impact on the rest of the market, especially if it produced political tensions between influential mainland sponsors of the red chips and the new government of Hong Kong.

There is a broader question for international investors. Is it possible to take advantage of the extraordinary growth that China's emergence into world markets provides, without having to put up with a still-rudimentary legal and regulatory framework? Western companies which are making direct investments in China have little doubt that the exercise will eventually pay off, but they also know how frustrating it can sometimes be. Portfolio investors should not expect the process to be any different.

Email: peter.martin@FT.com

COMPANY RESULTS DUE

British Steel vulnerable to sterling

British Steel, which reports today, has been hard hit by the rise in sterling. Two months ago it warned analysts to mark down profits forecasts. For the year to end-March, pre-tax profits of about £410m on sales of some £7bn are awaited.

Longer-term, demand is rising in many continental European markets, enabling it to raise prices for many products by up to 8 per cent from the end of this month. Last year, the company made a profit of £1.1bn.

■ Thames Water, the water and sewerage company, is expected tomorrow to report a 14 per cent rise in adjusted pre-tax profits to £368.5m ($601m). Unadjusted for exceptionals, which in 1995-96 included a £95m restructuring charge, pre-tax profits are expected to rise 19.5 per cent. It is also forecast to announce a net dividend of 34.5p, up 22 per cent.

■ The impact of the strong pound is likely to be uppermost in investors minds as **Eurotherm** announces interim results tomorrow, because 40 per cent of its sales are exports. The continental European downturn has also taken its toll on the orders for the company's electronic equipment.

NatWest Securities thinks operating margins may fall from about 18 per cent to about 15, and predicts underlying pre-tax profits of £15.5m ($25m), down from £18.7m.

■ When **Carpetright** reports on Tuesday, attention will be focused on margins. The group's recent heavy discount promotion may help current trading figures but may equally have hit gross returns.

Forecasts are for pre-tax profits of about £31.5m ($51.3m), against £25.2m last time.

■ **Courts**, the furniture retailer, is expected on Thursday to report profits of about £27.5m ($44.8m), against £18.3m last year. The market will be keen to know whether the strong trading increases reported at the interim stage are continuing.

■ On Thursday, investors will be focusing on any disposals **Securicor** is planning, as the security group announces interim results, although disposal of its Cellnet stake is not expected.

A profits warning in March suggests these results will not be exciting, and NatWest Securities forecasts headline pre-tax profits of £28m ($46m), down from £47.6m. However, taking out the exceptional charges leaves a forecast of £46m, down from £51.5m.

INTERNATIONAL EQUITIES

OTE leads Greek stocks surge

OTE's recent tie-up with Serbia Telecom has put the Greek telecoms company in the international spotlight.

Arguably though, its forthcoming $1.2bn offering – 48 per cent of which will be sold to foreign investors – is of more significance.

The secondary offering, which follows the company's IPO last year, will be Greece's largest international equity offering to date. Officials at Salomon Brothers, which is jointly handling the international side of the distribution with HSBC, says that it will reduce the state's holding in OTE from 92.4 per cent to 84.3 per cent.

Accounting for about 20 per cent of the Greek stock market's capitalisation, OTE is by far the best known Greek company to foreign investors. "If this is successful, the Greek government will be tempted to view OTE much as Germany sees Deutsche Telecom," said one analyst in London. "It can issue another tranche of shares whenever it is opportune."

The offering has also found strong interest in the Greek domestic market. Analysts in Athens say that the level of enthusiasm among local retail investors might prompt the government to review its policy of placing a 25 per cent ceiling on equity disposals of state-owned enterprises.

The OTE issue, the biggest to date on the Athens stock exchange, marks the arrival of popular capitalism in Greece.

A Dr100bn ($364m) retail tranche, about one-third of the issue, was snapped up less than 24 hours after registration opened on Wednesday.

The price has been set at Dr6,600, with 52 per cent of the offering being allocated to domestic institutions and Greek retail investors, and the remainder to international institutions in Europe, the US and Asia. Retail investors will get a Dr300 per share discount.

Global co-ordinators National Bank of Greece, Salomon Brothers, and HSBC decided at the weekend to exercise an option on increasing the size of the offering from 10 to 12 per cent because of rising demand from both domestic and international institutions.

The offering will be followed immediately by a 6-for-80 rights issue (31.64m shares) restricted to old shareholders at a 16 per cent discount to the offering price. The government says it will buy its full quota of shares, leaving about Dr170bn to boost budget revenues.

Small investors have returned to the stock market following a sharp decline in interest rates, reflecting a steep drop in the annual inflation rate, and the introduction of a 15 per cent tax on interest income from treasury bills.

The bourse index has risen steadily since January, led by a group of state-owned Greek banks undergoing restructuring, and in recent weeks, OTE.

The telecom operator's share price has surged from Dr4,000 in January to Dr7,095 on Friday. Trading volume soared last week, as domestic and foreign institutions bought heavily on fears their allocations would be cut back because of strong demand for shares.

The growing appetite for OTE stock is encouraging the government to speed the next partial privatisation, the sale of 10-15 per cent of DEP, the state holding company for two oil refineries, each with a nationwide chain of petrol stations.

The disposal, now set for December, is projected to raise over $150m and would include a tranche for international investors.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JUNE 13 1997								THURSDAY JUNE 12 1997					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (76)	234.57	5.7	212.66	170.07	211.93	207.64	11.8	3.71	232.67	211.01	167.58	208.54	206.59	234.97	188.44	199.63
Austria (24)	194.05	2.2	175.93	140.69	175.32	175.24	15.3	1.90	194.88	176.74	140.36	174.67	174.59	200.52	174.70	192.16
Belgium (26)	254.57	11.8	230.79	184.57	230.00	225.19	26.3	3.17	255.67	231.87	184.14	229.15	224.33	255.67	206.70	211.06
Brazil (30)	286.06	50.8	259.34	207.40	258.45	565.62	55.9	1.27	284.34	257.87	204.79	254.85	561.97	286.06	164.28	164.28
Canada (112)	212.99	12.2	193.10	154.43	192.43	212.67	12.9	1.84	211.11	191.46	152.05	189.22	211.11	212.99	154.12	159.99
Denmark (32)	387.26	10.0	351.09	280.78	349.87	348.53	23.4	1.45	388.31	352.15	279.67	348.03	346.81	391.53	296.19	296.19
Finland (26)	275.67	12.2	249.92	199.87	249.06	301.49	26.9	1.51	277.82	251.95	200.09	249.00	301.71	279.84	186.67	194.39
France (91)	227.44	6.2	206.19	164.90	205.48	209.22	19.9	2.71	225.93	204.89	162.72	202.50	206.21	232.34	186.94	195.32
Germany (59)	215.37	13.4	195.25	156.15	194.57	194.57	27.8	1.45	215.13	195.10	154.94	192.81	192.81	216.90	169.70	169.79
Hong Kong (66)	492.89	−2.8	446.85	357.36	445.31	489.92	−2.7	3.08	485.72	440.49	349.83	435.34	482.88	526.88	407.55	423.19
Indonesia (27)	242.57	8.3	219.92	175.87	219.16	361.39	9.3	1.63	241.63	219.13	174.03	216.57	359.68	–	–	–
Ireland (17)	353.50	7.5	320.49	256.30	319.38	328.70	20.1	2.86	351.94	319.18	253.48	315.44	328.55	353.50	270.08	287.28
Italy (59)	91.81	10.0	83.24	66.57	82.95	117.03	23.4	2.15	90.11	81.72	64.90	80.76	114.04	98.32	73.28	80.82
Japan (485)	136.76	6.0	123.99	99.16	123.56	99.16	4.7	0.79	137.18	124.41	98.80	122.95	98.80	158.25	107.57	155.04
Malaysia (107)	521.32	−13.6	472.63	377.97	470.99	504.60	−14.0	1.36	530.29	480.91	381.93	475.29	512.62	660.85	510.10	551.27
Mexico (27)	1516.83	24.4	1375.15	1099.75	1370.39	13196.90	25.7	1.41	1518.93	1377.50	1093.97	1361.39	13215.96	1518.93	1110.35	1214.40
Netherland (19)	388.73	15.6	352.42	281.84	351.20	346.79	30.7	2.24	386.97	350.94	278.70	346.83	342.44	388.73	279.88	296.40
New Zealand (14)	90.75	−1.1	82.28	65.80	81.99	88.67	1.3	4.11	91.80	83.25	66.12	82.28	70.52	95.60	76.64	76.64
Norway (41)	310.06	4.9	281.12	224.82	280.14	305.98	19.4	2.01	311.07	282.11	224.04	278.81	303.94	321.23	246.04	256.30
Philippines (22)	167.82	−17.6	152.14	121.67	151.62	220.63	−17.3	0.85	167.48	151.87	120.61	150.10	220.14	–	–	–
Singapore (42)	385.58	−8.2	349.56	279.56	348.35	253.65	−6.3	1.20	387.84	351.73	279.34	347.62	254.48	448.01	360.08	415.66
South Africa (44)	361.00	13.4	327.28	261.74	326.15	355.26	9.1	2.44	363.01	329.21	261.45	325.36	356.85	370.12	301.49	384.28
Spain (35)	257.49	17.1	233.44	186.69	232.63	285.92	32.0	2.29	258.60	234.43	186.18	231.69	285.33	262.42	171.91	180.73
Sweden (49)	466.72	10.6	423.12	338.38	421.66	536.96	25.9	1.94	462.27	419.23	332.94	414.33	531.65	467.61	384.35	354.44
Switzerland (35)	300.35	25.9	272.30	217.77	271.36	269.30	35.6	1.24	299.87	271.95	215.97	268.76	268.32	301.09	231.69	234.11
Thailand (43)	55.64	−41.9	50.44	40.34	50.27	55.74	−41.5	5.60	61.34	55.63	44.18	54.98	57.25	172.92	55.64	168.08
United Kingdom (212)	308.21	8.8	279.42	223.46	278.45	279.42	13.9	3.61	306.20	277.69	220.53	274.44	277.69	308.21	229.63	233.10
USA (649)	361.54	19.8	327.77	262.13	326.64	361.54	19.8	1.69	357.52	324.23	257.49	320.44	357.52	361.54	254.79	272.36
Americas (818)	330.74	18.8	299.85	239.79	298.81	278.52	19.9	1.69	327.15	296.69	235.62	293.22	275.52	330.74	233.09	248.53
Europe (727)	267.79	11.7	242.78	194.16	241.94	249.73	22.1	2.57	266.53	241.72	191.97	238.89	247.60	267.79	204.71	209.39
Nordic (150)	399.54	10.1	362.22	289.68	360.97	398.37	24.9	1.81	398.01	360.95	286.65	356.73	395.44	401.59	291.45	303.47
Pacific Basin (882)	153.92	3.5	139.54	111.60	139.06	112.68	2.8	1.26	154.15	139.80	111.03	138.17	112.23	170.85	127.18	167.50
Euro-Pacific (1609)	201.43	8.0	182.61	146.04	181.98	164.33	13.1	1.88	201.05	182.33	144.80	180.19	163.27	201.43	178.55	184.85
North America (761)	352.40	19.4	319.48	255.50	318.38	351.65	19.4	1.70	348.61	316.06	251.01	312.37	347.80	352.40	248.85	265.41
Europe Ex. UK (515)	240.15	13.5	217.72	174.12	216.97	227.89	27.1	1.98	239.27	217.00	172.33	214.46	225.85	240.15	185.65	191.31
Pacific Ex. Japan (397)	303.91	−3.6	275.52	220.34	274.57	266.66	−1.9	2.79	302.84	274.65	218.11	271.43	265.49	320.65	268.97	284.04
World Ex. US (1822)	205.17	8.8	186.01	148.76	185.36	171.04	13.4	1.97	204.74	185.68	147.46	183.51	169.97	205.17	176.94	186.04
World Ex. UK (2259)	249.89	14.2	226.55	181.18	225.77	220.27	16.5	1.65	248.31	225.19	178.84	222.55	218.33	249.89	199.58	210.70
World Ex. Japan (1986)	315.65	15.3	286.16	228.85	285.17	305.82	18.9	2.05	313.04	283.90	225.46	280.58	302.90	315.65	233.10	244.93
The World Index (2471)	254.91	13.7	231.10	184.82	230.30	225.75	16.3	1.84	253.29	229.71	182.43	227.02	223.82	254.91	202.32	212.74

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 122.27 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 184.40 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 13/6/97: Addition: Ryanair Holdings (Medium-Small Cap) (Ireland). Deletion: US Robotics (USA). Name changes: CRA Ltd. to Rio Tinto Ltd. (Australia) and Providian Corp. to Providian Financial Corp. (USA). CONSTITUENT CHANGE WITH EFFECT 16/6/97: Reclassification: Providian Financial Corp: Insurance Life (141) to Financial Institutions (121) (USA).

MARKETS: This Week

NEW YORK By Richard Waters

The tongue-in-cheek headline on a weekend research note from Robert Brusca, chief economist at Nikko Securities in New York, says it all: "Good news forever."

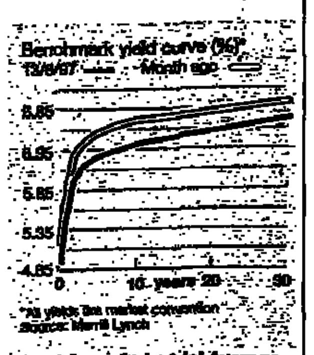
Last week's continued surge by the stock market into record territory, capped by a 70-point gain in the Dow Jones Industrial Average on Friday, came amid renewed evidence that US economic growth has slowed to a more sustainable level in recent weeks.

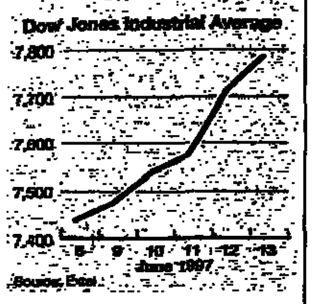
There seems every chance the good news will last at least into this week – though "forever" remains more of a stretch.

A batch of economic data tomorrow is expected to confirm that inflationary pressures are well in check, suggesting the Federal Reserve's policy committee will leave interest rates unchanged when it meets in early July.

The yield on the long bond dipped below 6.75 per cent last week for the first time in four months, potentially setting the stage for another leg in the long bull market.

Most important among tomorrow's data will be the consumer price index for May. While food prices may have risen faster, the core index – excluding food and energy – is expected by most Wall Street economists to have advanced 0.2 per cent, keeping its annual increase at a moderate 2.6 per cent.





An expected slight decrease in May housing starts, to 1.45m, would reinforce this favourable picture for the bond market.

Also among tomorrow's reports will be manufacturing capacity utilisation: at just over 83 per cent in the latest month, this should confirm that supply-side pressures remain under control.

LONDON By Philip Coggan

UK markets start the week on the back of yet another all-time high for the FTSE 100 index on Friday, with the strength of Wall Street and continued speculation on takeovers giving shares a fillip.

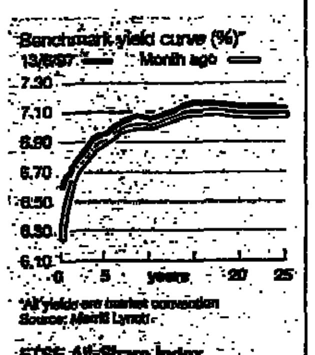
The start of the week will be dominated by the first day of trading in Norwich Union, the former mutual insurance company.

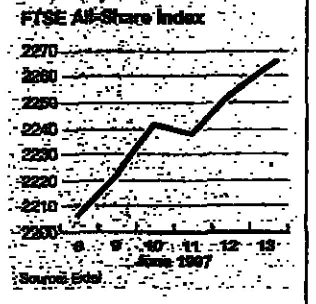
The Norwich flotation, like those of Alliance & Leicester and Halifax, has seen the shares rise in grey market trading, as institutions struggle to get a weighting in a stock placed largely with private investors.

Although the forthcoming Budget may induce a note of caution, the attitude of foreign investors to UK assets may have undergone a sea change.

Analysts cite the decision to give the Bank of England the power to set interest rates, the fact that UK rates are rising when those in most other countries are flat and the concept of sterling as a "safe haven" in the face of worries about the weakness of the European single currency.

Mr Ian Williams, UK strategist at Panmure Gordon, says that "with sterling assets generally being viewed more favourably, investors holding cash in the UK would be well advised to move the money into the market as soon as is practical."





That optimism may be tested, however, if there are signs that the building society windfalls are leaking into dramatically higher consumer spending.

The big test will be the retail sales numbers on Wednesday, with the consensus pointing to a 0.3 per cent monthly and a 4.6 per cent annual rise.

FRANKFURT By Andrew Fisher

The fainthearts were brushed aside again on Friday as the German stock market powered to another record. In electronic trading, the DAX index of 30 blue chips closed at 3,752 and analysts and investors are setting their sights even higher after an unexpectedly sharp increase this year.

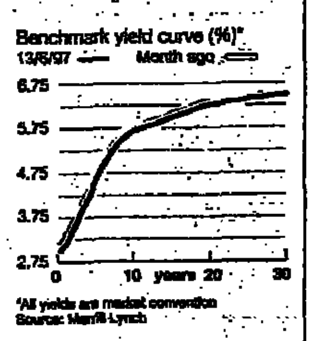
A DAX level of 4,000 is no longer regarded as reaching for the sky, so long as Wall Street keeps rising, interest rates remain low, earnings are buoyant and corporate restructuring continues.

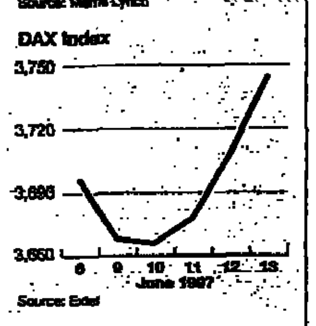
Even so, the awareness that the rise cannot last for ever is growing. Mr Rolf Breuer, Deutsche Bank's chairman, said last week "the air is getting thin" at current bourse levels.

If the plan for European monetary union looks as if it is going awry, that could be the signal for a change in sentiment. On that score, markets will certainly have plenty to ponder this week.

As uncertainties over Emu's prospects mount, heads of government will strive to reach agreement in Amsterdam on the stability pact to curb budget deficits.

France is keen to stress the employment aspect, while Germany is concerned this could involve needless expenditure. As ever, a compromise is likely.





"It is unlikely that the politicians would allow a row over the stability pact to sink the whole Emu project at Amsterdam," says Mr Julian Jessop of Nikko Europe.

Thus Germany is likely to give ground. On the domestic front, money supply figures are expected to show that M3 growth for May has finally fallen within the Bundesbank's 1997 target range. April retail sales should show an improvement.

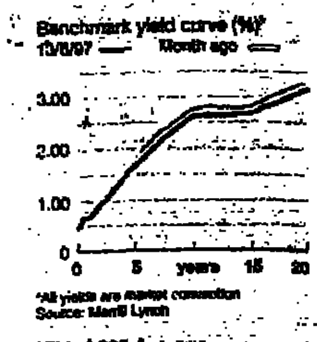
TOKYO By Gwen Robinson

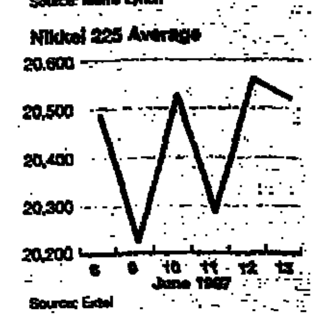
Markets have much to digest this week, after renewed turbulence in yen/dollar exchange rates, the publication of mixed economic data and the announcement on Friday of proposals to liberalise Japan's securities market.

The measures are central to the government's "big bang" programme of financial deregulation, and have been generally welcomed by investors. The introduction from June 1 of stock options, previously banned in Japan, has already driven up share prices of companies considering such schemes and contributed to the stock market's recent activity.

At the same time, the government's deliberations have triggered an industry shake-out which will hit smaller securities houses and encourage foreign brokers and financial institutions to expand in Japan.

Among key recommendations are the abolition of fixed commissions on stock transactions and the removal of curbs on new securities products over the next few years. They also call for greater disclosure of information by brokers and tougher penalties on wrong-doers. Another proposal, to allow banks to enter the securities business, is likely to fuel competition between brokers.





After wild fluctuations through the week on the dollar's sharp rebound against the yen, the Nikkei 225 index closed the week slightly lower, down 36.11 on the day at 20,528.35 but ahead of the previous week's close of 20,362.64.

Government bonds, meanwhile, recovered from the dollar's appreciation to end the week higher.

COMMODITIES By Maggie Urry and Kenneth Gooding

Gold not out of the woods

Sugar and grain, gold and diamonds vie for attention this week.

The annual Financial Times gold conference begins in Prague today at a time when the market is deep in gloom about the prospect of large-scale sales from "above-ground stocks" held by central banks and similar organisations.

Fears about such disposals have weighed heavily on the price and some analysts think gold can go much lower. Mr Ted Arnold at Merrill Lynch suggests, for example, that if gold falls through the $340 an ounce support level "it could easily fall to $270 to $280".

On Wednesday De Beers' Central Selling Organisation, which operates the international rough (or uncut) diamond cartel, will reveal details of first-half sales. Since the middle of last year two of the biggest producers of diamonds – Russia, and Argyle of Australia – have left the CSO.

Nevertheless, traders believe the CSO has been digging deep into its stocks and will announce sales ahead of the record $2.78bn for the first half of 1996, possibly of as much as $2.85bn.

On Friday, Matif, the French futures and options exchange, is launching a second white sugar contract.

This will be a 100 Icumsa contract, a lower quality than the existing 60 Icumsa contract, which is in turn to be upgraded to a 45 Icumsa basis starting with the October 1998 maturity.

Mr Bruno Guiot, Matif's commodities product manager, said the exchange believed there was demand for two contracts as world sugar markets have undergone significant changes in recent years.

On Thursday and Friday, the International Grains Council holds its annual conference in London. The theme is trading in a changing market, and speakers include agriculture ministers from the US, Canada, India, Argentina, and delegates from Russia, Japan, France, Indonesia and Morocco as well as the European Commission.

OTHER MARKETS Compiled by Jeffrey Brown

Having put their monetary union worries to one side and concentrated on Wall Street, European bourses will be hoping that tomorrow's US consumer price index can maintain the positive inflation mood.

PARIS

French shares clawed back into new high territory on Friday, riding up on the back of US bonds and equities, but also underpinned by hopes for political pragmatism this week from the newly installed government.

Prime minister Mr Lionel Jospin makes a formal policy statement on Thursday. He is expected to tread warily, but for all that there should be some real enough insights into the political make-up of his Socialist coalition.

The key determinants for the stock market will be the government's employment plans plus any further clues about the outlook for Emu. Brokers suggest that the former could well provide the best indication yet of just how left of centre the new government is.

At all events, the share market is expected to stay volatile after a rise in the leading CAC 40 index of 8 per cent since May 28. This week's corporate news centres mostly on analysts' meetings at Rhone-Poulenc and Danone, on Thursday and Wednesday respectively.

STOCKHOLM

After last week's blizzard of heavyweight corporate news (root-and-branch restructuring at Electrolux, a $1.6bn share stake disposal by Incentive and a $900m US acquisition for Atlas Copco) traders in Stockholm can be forgiven for feeling slightly punch-drunk.

Bourse trading is reduced to four days this week by Friday's public holiday, so the chances are that the next few days will provide greater opportunity for reflection.

Hennes & Mauritz publishes interim results today and later this week investors in London and New York will have a chance to meet the chief executive, Mr Stefan Persson. The group, one of the few truly international retailers, has a lot to live up to with the shares on a 1997 price/earnings ratio of about 35.

But some brokers are betting the H&M interims will emerge at the top of the range and spark another round of earnings upgrades.

AMSTERDAM

A story of aggressive retailing could also emerge from Amsterdam when top stores group Ahold meets shareholders tomorrow.

Last week's first-quarter profits were right up to the mark.

After the successful spin-off by Vendex of its Vedior operations, the stock market is actively searching for other de-merger stories. The talk in Amsterdam is that KNP is close to hiving off its mail and telecoms arm.

HONG KONG

The mood is expected to remain bearish in Hong Kong, despite Friday's technical rebound, *writes Louise Lucas from Hong Kong*.

Concerns include China's desire to rein in speculation in both domestic markets, coming controls on the mainland-backed red chips, and domestic measures to tame property prices.

The concerns focus on two of the main planks of the Hong Kong stock market: property, which accounts for about 40 per cent, and red chips, which have seen their share prices more than double in recent months.

A number of brokers have cut their year-end targets for Hong Kong, previously a favoured market in the run up to July 1, when China resumes sovereignty.

Merrill Lynch says a correction could take the benchmark Hang Seng Index as low as 12,000 – compared with Friday's close of 14,112 – and has cut its recommended allocation by 1 percentage point.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
PacifiCorp (US)	Energy Group (UK)	Power	$8.4bn	Renews sector consolidation
News Corp (Australia)	PrimeStar (US)	Broadcasting	$1.1bn	Part of US retreat
Atlas Copco (Sweden)	Prime Service (US)	Equipment hire	$900m	Buyer's biggest
Thyssen (Germany)	Giddings & Lewis (US)	Machine tools	$675m	Sector's biggest bid yet
Blackstone Group (US)	Unit of Inco (Canada)	Mining	$410m	Alloys merger plans
Armstrong World Industries (US)	Domco (Canada)	Flooring	$353m	Floor wars
Parmalat (Italy)	Ault Foods (Canada)	Food processing	$300m	White knight move

CURRENCIES By Richard Adams

Japanese trade data may give direction to yen

After last week's news of Japan's massive trade surplus, foreign exchange markets will be looking at this week's trade figures to give further direction to the yen.

Last week, reports that Japan's current account surplus in April reached Y1,022bn, a 90 per cent increase over the year, sparked a rise in the yen against the US dollar to below Y111.

The dollar later recovered, and the yen was talked down by Japanese officials, towards a more comfortable Y114 rate by the week's end.

On Wednesday, however, the market will discover if the rise in Japan's surplus in its trade balance has continued into May.

Deutsche Morgan Grenfell is forecasting a rise of more than 200 per cent in the trade surplus, to Y729bn, as exports to the US remain buoyant and imports have yet to recover from April's falls after the increase in consumption tax.

But the market is already looking ahead to next week and the publication of the quarterly *tankan* business conditions survey by the Bank of Japan on June 25. Most analysts expect it to show slipping sentiment regarding economic recovery, allowing the BoJ to keep interest rates down.

The dollar could stay weaker against the yen and sterling if last week's low inflation story is continued this week, putting back the chances of a Fed rate rise next month.

On Tuesday consumer prices for May are out, with lower energy prices expected to hold back the overall index. But core CPI could be vulnerable to rising by more than the market forecasts of 0.2 per cent – which may put a rate rise back on the agenda.

The dollar and the yen could also be moved by the conclusions of the G7 summit in Denver, which wound up yesterday. Any fears about trade imbalances could be heightened by Thursday's US international trade figures for April.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, June 13, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7768.38	4760.00	2733.34	4141.24
Albania	(Lek)	291.110	178.000	102.428	155.188
Algeria	(Dinar)	93.8886	57.4072	33.0344	50.0498
Andorra	(French Fr)	9.5907	5.8643	3.3745	5.1127
	(Sp Peseta)	238.716	148.575	84.3451	127.780
Angola	(Readj Kwanza)	322050.8	196919.0	113315.1	171681.9
Antigua	(E Carib $)	4.4157	2.7000	1.5537	2.3540

		£ STG	US $	D-MARK	YEN (X 100)
Gibraltar	(Gib £)	1	0.6118	0.3519	0.5331
Greece	(Drachma)	449.814	275.040	158.268	239.791
Greenland	(Danish Krone)	10.8220	6.6171	3.8077	5.7690
Grenada	(E Carib $)	4.4157	2.7000	1.5537	2.3540
Guadeloupe	(French Fr)	9.5907	5.8643	3.3745	5.1127
Guam	(US $)	1.6355	1	0.5754	0.8718
Guatemala	(Quetzal)	9.7133	5.9392	3.4177	5.1780

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(2)	65.9996	40.3496	23.2188	35.1784
Panama	(Balboa)	1.6355	1	0.5754	0.8718
Papua New Guinea	(Kina)	2.2684	1.3870	0.7981	1.2092
Paraguay	(Guarani)	3530.93	2159.00	1242.38	1882.30
Peru	(New Sol)	4.3495	2.6595	1.5304	2.3187
Philippines	(Peso)	43.1448	26.3810	15.1807	23.0000

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MARKETS: This Week

INTERNATIONAL BONDS By [illegible]

Austerity in Ottawa ties down yields

Yields on long-term Canadian government bonds last week slipped below those of US Treasuries for the first time, rewarding Ottawa for putting its fiscal and economic house in order.

Canadian 30-year bonds were yielding 6.70 per cent on Friday, compared with 6.72 per cent for the US Treasury's long bond. Canadian yields were 2.2 percentage points above US levels as recently as 1994.

This cross-over in long-term yields brings the entire Canadian yield curve below the US. Among short maturities, this negative spread is even more pronounced. Canadian three-month Treasury bills, for example, are now yielding more than two percentage points less than equivalent US Treasuries.

Canadian commercial banks now charge their best customers a rate of 4.75 per cent, compared with 8.50 per cent in the US. And Canadian mortgage rates have been lowered twice in the past month.

Mr Daniel Kelly, vice-president, fixed income research at CIBC Woody Gundy, sees little prospect of a jump in Canadian interest rates over the next few months, even if the US Federal Reserve tightens monetary policy again.

"The Bank of Canada is not too concerned about excess demand," he says. "There is a tremendous amount of slack."

Inflation was running at a year-on-year rate of 1.7 per cent in April; well within the central bank's 1.0–3.0 per cent target range.

Markets are also impressed by the public sector's fiscal record. The federal government appears set to balance its budget within the next two years, after posting a record C$42bn deficit in 1994.

The 10 Canadian provinces have either balanced their books or have set targets for doing so. Several have even passed laws requiring balanced budgets.

Some analysts, however, warn that politicians may be counting their chickens before they hatch. In the recent election campaign, for example, talk of sustained fiscal discipline gave way to promises of tax cuts or spending increases, or both.

Mr Tom Connell, who heads the Toronto office of Standard & Poor's, the credit rating agency, says: "The big question is: 'What is the public appetite for continuing austerity?'"

British Columbia's reluctance to chop healthcare and education funding recently led S&P to cut its credit rating from AA+ to AA.

Perhaps a more serious risk is that rosy budget forecasts could be thrown off course by rising interest rates or a recession towards the end of the decade.

Mr Jim Dinning, a former treasurer of Alberta, warned in the Globe and Mail last week that "those who think that Canada can bank on a real economic growth rate of 3 per cent; that interest rates will be sustained at current low levels; that debt will stop growing; or that the demand on social programmes will be controlled – those must be the same people who banked on oil at $100 a barrel."

Whatever the outlook, the decline in public sector bond issuance has already brought significant changes to the domestic fixed-income market. "As provincial issuance declines, investors will be propelled to look at other sectors," says Mr Connell at S&P.

Investors' appetite for corporate bonds has risen, reflected in narrowing spreads between corporate and government issues.

Traditionally conservative Canadian institutions have even begun to dip their toes into a fledgling domestic high-yield market. Canadian companies with sub-investment grade credit ratings have up to now had little choice but to rely on bank financing, or the US 'junk bond' market. But several have recently launched domestic issues successfully.

Scott Paper, with a speculative credit rating of B, raised C$115m through a heavily oversubscribed issue of 10-year debentures. The bonds were priced to yield 4.3 percentage points above government debt.

Other recent high-yield borrowers include Four Seasons Hotels; property developers TrizecHahn; and Precision Drilling, an oil services group.

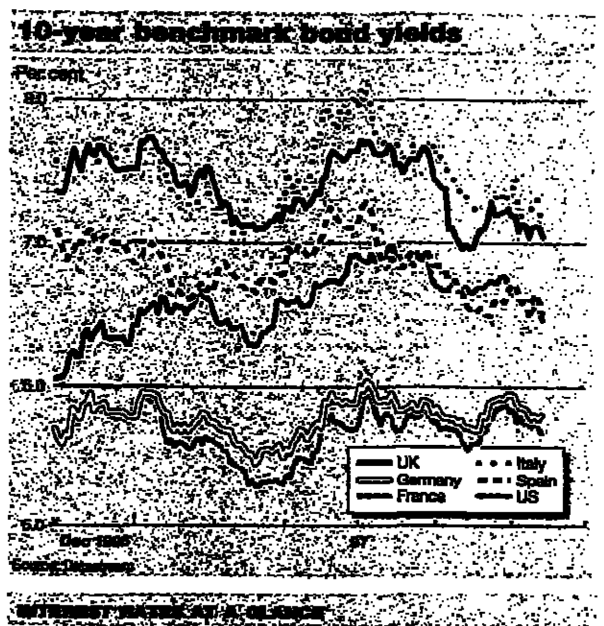
The buoyancy of Canadian bonds has been propelled largely by domestic investors who can afford to ignore currency risk.

But the Canadian dollar has disappointed many analysts who were expecting a rise in 1996 and 1997. It was trading at about US$0.7250 on Friday, almost a cent lower than a year ago.

And economists are expecting only a limited improvement over the next year. Scotia Capital Markets, part of Bank of Nova Scotia, expects the currency to rise to about US$0.7520 by the end of this year and to US$0.76 or US$0.77 in 1998.

"You've got to be really bullish on a currency to withstand a negative [yield] spread," says Mr Kelly at CIBC Wood Gundy. "And no one is that bullish on the Canadian dollar."

10-year benchmark bond yields



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	3.10	6.75	6.50
Overnight	n/a	n/a	2.98	3.15	7.00	n/a
Three month	4.98	0.59	3.04	3.25	6.74	6.61
One year	5.61	0.68	3.16	3.39	6.52	6.69
Five year	6.28	1.86	4.59	4.58	6.55	6.93
Ten year	6.42	2.57	5.70	5.59	7.11	7.05

[illegible] Source: Reuters

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Rossiel BV(a)‡	1bn	Feb 2008	(a1)	100.00R	-	-	CSFB
Bela Finance	500	Jul 2002	6.625	99.779R	6.680	+18(6½%-May02)	Salomon/SBC Warburg
Morgan Guaranty Tst Co NY	300	Jun 2004	6.625	99.358R	6.744	+25(6½%-May02)	JP Morgan Securities
United Parcel Service	300	Jul 2000	6.25	99.708	6.363	flat(6⅞%-00)	Merrill/TMI
Safra Leasing(b)	150	Jun 2005	8.125‡	99.757R	8.057	+178(6¾%-05)	Bear Stearns/Deutsche
New Zealand(c)	150	Jul 2002	6.75	99.95R	6.762	+26(6½%-May02)	Morgan Stanley DW
Postbank(d)‡	100	Jun 2007	(d1)	99.627R	-	-	Salomon Brothers Intl
ABN Amro, Chicago Branch	750	Jun 2007	7.125‡	99.951R	7.132	+59(6⅝%-May07)	ABN Amro Hoare Govett
Gleneagles Funding‡	520	Jun 2012	(f1)	99.15	-	-	Nomura International
Republic of Venezuela(f)	315	Jun 2007	9.125‡	99.735R	9.166	+285(6⅝%-07)	ING Barings
SBC Jersey Branch(g)	300	Jul 2002	6.50	99.70R	6.572	+55(6½%-May02)	SBC Warburg
KfW International Finance	250	Jul 2001	6.375	99.75R	6.448	+7(6½%-May00)	Nikko Europe
Korea Exchange Bank‡	200	Jun 1998	(g)	100.00R	-	-	Commerzbank/KZB
SGZ Bank(h)‡	100	Mar 2002	(h1)	99.745R	-	-	Commerzbank
Companhia Ultragaz(i)	60	Jun 2005	9.00‡	99.58R	9.025	+262½(6½-02)	Morgan Stanley DW
Assocs Corp of N America	500	Jan 2002	6.875	99.914R	6.896	+33(6½%-May02)	Lehman/M Stanley
National Australia Bank(k)	500	Dec 1998	6.125	99.8816R	6.30	+15(5⅝%-Dec98)	Nomura International
Votorantim O'seas Trading(n)	400	Jun 2005	8.50‡	99.543R	8.532	+216(6½%-02)	ING Barings
CESP(o)	300	Jun 2007	(o1)‡	99.532R	9.244	+280(6½%-02)	JP Morgan Securities
Svenska Handelsbanken‡	250	Sep 1999	(t)	100.058R	-	-	Salomon Brothers Intl
Lloyds Bank	250	Jan 1998	6.00	99.97	6.032	+22(T-bill)	Lehman Brothers Intl
WestLB Finance(Curaçao)	300	Jul 2001	6.50	99.92R	6.532	+13(6⅝%-May00)	Daiwa Europe
Dresdner Finance	200	Jun 2001	6.25	99.88R	6.542	+14(6⅝%-May00)	Dresdner KB
LB Schleswig-Holstein	200	Jul 2000	6.375	99.7035R	6.487	+9(6⅝%-May00)	CIBC WG/Nomura Intl
Bremer Landesbank(s)	200	Dec 1999	6.375	99.975R	6.41	+17(6⅝%-May99)	Commerzbank/UBS
ABB Intl Finance(t)§	150	Jul 2004	2.75	100.00	-	-	CSFB
Bempres Holdings	150	Dec 2002	7.875‡	99.514R	7.986	+155(6½%-02)	JP Morgan Securities
Cendant Corp	100	Jun 1998	6.075	100.10	5.969	-	Lehman Brothers Intl
TFM, senior notes(y)	150	Jun 2007	10.25‡	100.00	10.25	+370(6⅝%-07)	Morgan Stanley DW
TFM, snr disc.deb notes(z)	443.5	Jun 2009	(z1)‡	55.43062	11.75	+520(6⅝%-07)	Morgan Stanley DW
Citicorp(A)‡	300	Jan 2002	(A1)	99.91383R	-	-	Citibank International
Bear Stearns Companies(B)‡	250	Jun 2004	(B1)	99.8537R	-	-	Bear Stearns Intl
Bank Austria	200	Jul 2000	6.375	99.82R	6.443	+3(6⅝%-May00)	SBC Warburg
Svenska Handelsbanken(C)‡	50	Sep 1999	(C1)	100.058R	-	-	Salomon Brothers Intl
Taiwan LiteonElectronic(F)§	66	Jun 2004	(½-1)	100.00	-	-	Bankers Trust Intl
Saxon AST, Jan AV-1(H)‡	293.56	Jan 2027	(H1)	(H1)	-	-	Merrill Lynch
Kolobukiya	60	Jul 2002	(G)	100.00	-	-	LTCB International
D-MARKS							
European Inv'ment Bank(s)	500	Dec 2008	5.60	99.71R	5.658	+2(6%-Sep03)	ABN Amro Hoare Govett
BayerVB, NY Branch(k)	2bn	Jan 2002	4.50	98.89R	4.755	+18(4½-Feb02)	BayerVB/Merrill Lynch
DSL Finance(m)	300	Jan 2007	6.00	101.00R	5.855	+11(6%-Jan07)	Deutsche/SBC Warburg
STERLING							
CSFB, London Branch(u)	150	undated	8.25	99.503R	8.317	+100(9Oct08)	CSFB
3i Holdings‡	100	Jul 2007	(D)	99.49R	-	-	SBC Warburg
FRENCH FRANCS							
Bayerische Landesbank‡	500	Jul 2007	(x)	100.325	-	-	JP Morgan & Co
Republic of Italy	5bn	Jul 2007	5.875	99.919R	5.886	+18(t)	CDC/JP Morgan
Salomon Inc	1bn	Jul 2002	5.375	99.902R	5.398	+65(t)	Société Générale
Kingdom of Sweden(E)‡	300	Jul 2007	(E1)	100.00	-	-	Morgan Stanley DW
SWISS FRANCS							
ANA World Wings, Cay(n)★§	385	Jan 2000	0.125	101.875	-	-	SBC Warburg
Helaba Intl Finance	250	Jul 2002	3.00	102.90	2.378	-	CSFB
City of Yokohama	120	Jul 2007	3.75	102.75	3.421	-	Bk of TM/SBC Warburg
CSFB, London Branch(v)	350	undated	4.375	102.15	4.108	-	CSFB
ITALIAN LIRE							
CS Financial Products(w)	200bn	Jul 2004	7.30	99.95R	-	-	BCI/CSFB
Bayerische Hypo(x)	150bn	Jul 2000	6.875	100.00R	-	-	Credito Italiano
Toyota Motor Credit Corp	200bn	Jul 2002	6.625	101.575	6.249	-	Credito Italiano
AUSTRALIAN DOLLARS							
KfW International Finance	100	Jul 2007	7.25	100.56	7.170	-	Toronto Dominion Bank
WestLB Finance(Curaçao)	100	Jul 2002	6.75	101.15	6.473	-	Hambros Bank
National Australia Bank	100	Jul 2004	7.00	101.01	6.814	-	Hambros Bank
LUXEMBOURG FRANCS							
Banque Intl à Luxembourg(l)	2bn	Dec 2002	5.00	102.25	4.51	-	BIL
Toyota Motor Credit Corp(l)	2bn	Dec 2003	5.25	102.75	4.73	-	Crédit Européen-BBL
DANISH KRONER							
BNG	400	Jul 2004	5.875	101.93	5.535	-	Kreditbank Intl Group
PESETAS							
Hamburgische Landesbank‡	10bn	Jul 1999	(x)	100.00	-	-	Caja de Madrid
ESCUDOS							
Argentaria Global Finance‡	10bn	Jul 2007	(y)	100.00	-	-	Banco Chf
NEW ZEALAND DOLLARS							
Norddeutsche Landesbank	125	Jul 1999	7.25	100.90	6.754	-	HSBC Markets/NordLB
Asfinag	150	Jul 2008	7.00	100.545	6.793	-	Toronto Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ★Unlisted. ¶Semi-annual coupon and yield. R: fixed re-offer price. a) Secured on L1,700bn loan to Sicily. Amortises: expected 6.4 year average life. a1) 6-mth Libor +45bp. b) Callable and puttable on 16/6/00 at 99.50% and on 16/6/02 at 99.625%. c) Callable on 9/7/99 at par. d) Callable from Jan 02 at par. d1) 3-mth Libor +25bp to Jan 02, then +175bp. e) 6-mth Libor +100bp: interest accrues when 6-mth Libor is between 4% and 6.05%. f) Extendable to Dec 2037. f1) 6-mth Libor +25bp. g) 3-mth Libor +45bp. h) Fungible with $250m. No accrued. h1) 3-mth Libor flat. i) Over interpolated yield. j) Callable & puttable on 18/6/02 at 99.50%. k) Oeffentliche Pfandbrief. l) Long 1st coupon. m) Fungible with DM1bn. Plus 160 days accrued. n) 4½% to 10/7/02, then Tec-10 +8bp. o) Denoms: SFr50,000 + 50 wrts to All Nippon Airways. Ex price: Y744. FX: 77.92 Y/SFr. Downward revision clause in 1-yr, max 80%. p) Callable & puttable on 27/6/02 at 99.50%. q) Callable & puttable on 28/6/02 at par. q1) 9⅛% to 26/6/02, then 9⅝%. r) 3-mth Libor flat. s) Short 1st coupon. t) Conversion price: SFr 2701.89. FX: 1.432 SFr/$. Callable from Jul 00 at par. u) Callable on 10/7/09 & every 5 yrs at par. If not called coupon is reset at 200bp over 5yr gilts. v) Includes SFr100m increase at 102.60%. Callable from 23/7/07 at par. If not called coupon pays 3-mth Libor +165bp. w) Issuers option after 2 yrs to convert into FRN paying 6-mth Libor +25bp. x) Issuers option to convert on coupon dates into FRN paying 6-mth Libor +18bp. y) 6-mth Libor +27bp; max 9%. z) Callable from 15/6/02 at 105⅞% falling 2⅞%pa to par. z1) Zero to 15/6/02, then 11¾%pa. A) Callable from Jan 00 at par. A1) 3-mth Libor +5bp. B) Callable from Jan 00 at par. B1) 1-mth Libor +25bp. C) $250m launched on Wednesday was increased to $300m. C1) 3-mth Libor flat. D) 3-mth Libor +10bp. E) Callable annually from Jul 98 at par. E1) 3-mth Pibor +30bp, max 7½%. F) Pricing: 19/6/97. Puttable in 5 yrs to yield Treasuries +40-60bp. Callable after 3 yrs, subject to 140% hurdle, at accreting value. Greenshoe: $9m. G) 6-mth Libor +32½bp. H) Asset Securities Trust. Av life: 2.14 yrs. 13 other tranches bring total to $488.861m. H1) Priced later: 1-mth Libor 21bp area. Note: Yields are calculated on ISMA basis.

EMERGING MARKETS By Leslie Crawford

Mexican stocks back in favour

Mexican stocks are back in favour with foreign investors and are likely to deliver a much stronger performance in the second half of the year than their dull showing to date, according to analysts.

Mexico City has lagged behind other Latin American bourses in 1997 owing to a crop of disappointing first-quarter results and fears of political instability before mid-term elections next month.

But when the political fears proved unfounded and the economy continued to show signs of recovery, foreign sentiment changed and the Bolsa gained 6 per cent in peso terms in the first two weeks of June.

Several factors have underpinned the stock market recovery. A buoyant New York market has sent positive ripples down Mexico way. A benign international environment has also allowed many Mexican corporations to refinance their dollar obligations on more favourable terms, which should improve their results.

According to Mr Lars Schonander, head of research at Santander Investment in Mexico City, regional equity funds have started to shift money out of Brazil, Latin America's top performer this year with dollar yields up almost 60 per cent, and into Mexico, where gains have been more modest at 22 per cent, and the market is trading on a prospective p/e of 11.5.

"There are concerns about Brazil's fiscal and current account deficits, while Mexico is looking strong on both counts," Mr Schonander says. "Mexico and Venezuela are the only countries in Latin America which are running trade surpluses right now."

Foreign capital flows have been so strong that the Bank of Mexico added $8.6bn to international reserves in the first five months of 1997. In January, the cautious central bank had predicted a net increase of $2.5bn for the whole of the year.

Healthy reserves and a steady peso, while squeezing the profit margins of exporters, have helped bring down inflation to 0.91 per cent in May – the first time monthly inflation has fallen below 1 per cent since the onset of the financial crisis in December 1994. This in turn is expected to bring some relief to family incomes, which were badly mauled by devaluation and high inflation in 1995 and 1996.

Mr Schonander is expecting a timid recovery in consumer sales, which can be expected to improve the outlook for Mexico's large supermarket chains and retail stores, such as Cifra, Gigante and Soriana. He also forecasts better results for cement and construction companies.

Some analysts are recommending equity investments in the troubled financial sector, even though Mexican banks have yet to resume lending and remain encumbered by large portfolios of bad loans.

Mr Jay Pelosky, Latin America strategist at Morgan Stanley, argues that the worst will soon be over for Mexico's banks. "The most leverage to the Mexican recovery is in the banking sector," he says, adding that Banacci and Bancomer, Mexico's two leading financial groups, could see their shares rise by up to 30 per cent in dollar terms by the end of the year.

The Mexican stock market has also seen a number of new listings, such as Globo, a bakery; Wings, a fast-food chain; and ECE, the investment vehicle of a group of young, second-generation Mexican businessmen who own the Hard Rock Cafe in Mexico City.

While the initial public offerings have been too small to awaken the interest of international investors, Mr Pelosky says the listings point to the regeneration of medium-sized businesses, a sector which floundered during the 1995 recession.

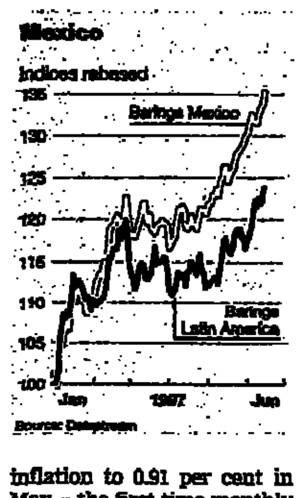
Another six corporations have registered with the National Banking and Securities Commission to place IPOs or rights issues in the next two months. They include Corporación Geo, a construction company that specialises in low-cost housing; Biper, a radio-paging service owned by Elektra, the retail chain, which hopes to raise 200m pesos ($25m) by floating 15 per cent of its subsidiary; and Industrias Bachoco, an egg and poultry producer.

Large corporations have not issued new equity this year, but there could be some activity on this front if either Hylsamex or Ahmsa win the forthcoming privatisation of Sidor in Venezuela, the last big Latin American steel complex in state hands. Big contracts in the gas and electricity sector could also tempt some of Mexico's large construction firms to return to the stock market.

With the economy showing steady improvement and the government pledging to stay the course after the July elections, many stock brokers are hoping the Mexico City Bolsa will lead the Latin American performance league during the second half of the year.

"Inflation is falling, the peso is stable, and companies look set to post strong earnings in 1998," Mr Pelosky says. "Mexico could be the most attractive emerging market in the world over the next 12 months."

Mexico



ING BARING SECURITIES EMERGING MARKETS INDICES

Index	13/06/97	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (449)	184.76	+3.32	+1.83	+9.02	+5.13	+24.65	+15.40
Latin America							
Argentina (22)	133.37	+2.42	+1.85	+10.94	+8.94	+26.24	+24.49
Brazil (24)	393.68	+27.88	+7.56	+35.87	+10.02	+132.65	+50.82
Chile (16)	224.95	+12.01	+5.64	+28.43	+14.47	+62.51	+38.48
Colombia (13)	239.25	-1.98	-0.82	+0.10	+0.04	+65.56	+37.75
Mexico (27)	102.74	+3.49	+3.52	+6.71	+6.98	+21.06	+25.79
Peru (12)	1,360.48	+2.16	+0.16	+75.79	+5.90	+353.27	+35.07
Venezuela (6)	76.32	+0.88	+1.17	+8.97	+13.31	+14.14	+22.74
Latin America (119)	198.22	+9.52	+5.04	+16.94	+9.34	+54.71	+38.13
Europe							
Czech Rep.(14)	83.33	+3.53	+4.43	-7.19	-7.94	-20.95	-20.09
Greece (20)	183.30	+4.06	+2.26	-6.86	-3.61	+71.00	+63.22
Poland (25)	335.57	+11.73	+3.62	+5.59	+1.69	-8.17	-2.38
Portugal (18)	188.35	+3.18	+1.71	+4.62	+2.51	+42.17	+28.85
South Africa (30)	146.30	-0.98	-0.66	+0.14	+0.10	+16.41	+12.64
Turkey (27)	162.94	-9.30	-5.40	+14.62	+9.85	+37.90	+30.31
Europe (134)	138.82	+0.03	+0.02	+0.70	+0.51	+20.48	+17.31
Asia							
China (27)	63.79	-1.57	-2.40	-1.29	-1.98	+7.31	+12.93
Indonesia (30)	161.20	+0.45	+0.28	+6.31	+4.07	+4.77	+3.05
Korea (23)	96.81	+3.78	+4.06	+16.54	+20.81	+15.59	+19.20
Malaysia (24)	231.93	-8.62	-3.58	-1.78	-0.76	-48.50	-17.29
Pakistan (13)	71.21	+4.31	+6.45	+5.98	+9.17	+12.75	+21.81
Philippines (18)	269.29	+5.08	+1.92	+8.75	+3.36	-44.51	-14.18
Taiwan (31)	205.29	+0.38	+0.19	+9.57	+4.89	+19.86	+10.71
Thailand (29)	94.27	-10.50	-10.02	-20.73	-18.02	-60.90	-39.25
Asia (193)	207.29	-1.93	-0.92	+5.55	+2.75	-10.28	-4.73

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

■ STERLING FUTURES (IMM) £62,500 per £

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

Jun	95.12	95.08	-0.03	95.13	95.06	321	2,686
Sep	94.79	94.79	+0.02	94.82	94.79	121	6,976

All Open Interest figs. are for previous day

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

■ Pound in New York

[illegible]

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.50	●Singer & Friedlander	6.50
Allied Irish Bank (GB)	6.50	Exeter Bank Limited	7.50	●Smith & Williamson Secs	6.50
●Henry Ansbacher	6.50	Financial & Gen Bank	7.50	Scottish Widows Bank	6.50
Bank of Baroda	6.50	●Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	●Guinness Mahon	6.50	United Bank of Kuwait	6.25
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	●Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.50
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50		
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.50		
Citibank NA	6.50	●Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.50		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	●Rea Brothers	6.50		
		Royal Bk of Scotland	6.25		

● Members of London Investment Banking Association

* In administration

OTHER STATISTICS

STOCK INDICES

[illegible]

RIGHTS OFFERS

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

BANK RETURN

[illegible]

TRADITIONAL OPTIONS

First Dealings June 2 Expiry August 28

Last Dealings June 13 Settlement Sept 4

[illegible]

FTSE GOLD MINES INDEX

[illegible]

UK GILTS PRICES

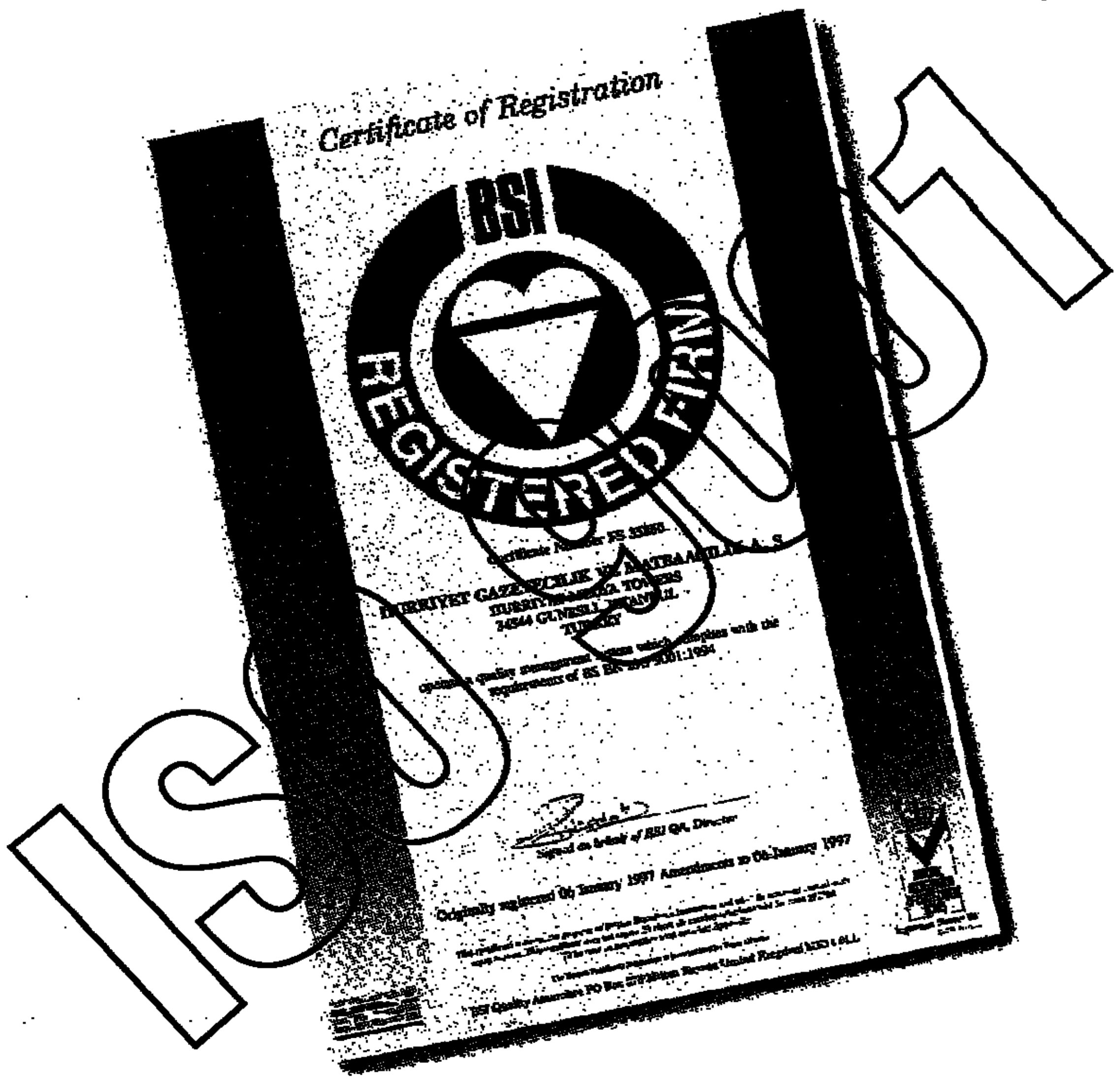
[illegible]

Other Fixed Interest

[illegible]

COMPANY NOTICES

"Hürriyet is the first and only Turkish national newspaper to receive the **ISO 9001** certificate..."



...and all we had to do for it, is what we do everyday!

Apart from our devoted readers in five continents and our sales exceeding any other Turkish newspaper, there is now a third indicator of our dedication to quality: The ISO 9001 certificate.
And all we had to do for it was what we have been doing for the past 49 years.

If you have any intention of investing in Turkey, make sure you invest on quality.
Make sure you choose the opinion leading and best selling Turkish newspaper: Hürriyet.

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LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INSURANCE - Cont.

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

	Notes	Price	Wk % ch'nge	Div net	Dividends paid	Mkt cap£m	Last xd	City line
[illegible]								

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

	Notes	Price	Wk % ch'nge	Div net	Dividends paid	Mkt cap£m	Last xd	City line
[illegible]								

INVESTMENT COMPANIES

	Notes	Price	Wk % ch'nge	Div net	Dividends paid	Mkt cap£m	Last xd	City line
[illegible]								

LEISURE & HOTELS

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

LIFE ASSURANCE

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

MEDIA

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

MEDIA - Cont.

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

OIL EXPLORATION & PRODUCTION

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

OIL, INTEGRATED

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

OTHER FINANCIAL

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

PAPER, PACKAGING & PRINTING

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

PHARMACEUTICALS

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

PHARMACEUTICALS - Cont.

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

PROPERTY

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

PROPERTY - Cont.

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

RETAILERS, FOOD

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

RETAILERS, GENERAL

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

RETAILERS, GENERAL - Cont.

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

SUPPORT SERVICES

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

SUPPORT SERVICES - Cont.

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

TELECOMMUNICATIONS

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

TEXTILES & APPAREL

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

TEXTILES & APPAREL - Cont.

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

TOBACCO

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

TRANSPORT

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

WATER

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

AIM

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

AIM - Cont.

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the UK Official List.

AMERICANS

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								

CANADIANS

	Notes	Price	Wk % ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
[illegible]								
Royal Bk Canada C$		2993	1.0	$1.48		FeMyAuNv	24.1	1180
Toronto-Dom C$		19¾	1.5	1.12c		JaApJyOc	18.12	1207
Trans Can Pipe C$	♥	1213	0.6	$1.16		JaApJyOc	27.12	–
Western Star Trucks C$		16⅞	-1	–		–	–	–

SOUTH AFRICANS

	Notes	Price	Wk% ch'ge	Div net	Div cov	Dividends paid	Last xd	City line
Anglo Am Ind R		526	—	Q545c	ϕ	May Oct	2.9	–
Barlow	$†	855½	-1.4	Q160c	3.3	Jan Jul	9.12	–
Gold Flds Prop R	†	172	-.5	Q66c	1.5	Feb Sep	2.98	–
SA Brews		£18¼xd	—	Q287c	ϕ	Jul Feb	2.6	4113
Standard Bank		2292	-2	Q264c	3.1	Sep Mar	–	–
Tiger Oats	†	1087½	2.2	Q130c	2.8	Jan Jul	9.6	–
Tongaat-Hulett		752½	-1.0	Q142c	ϕ	Jan Jun	9.12	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue, cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Charlton Athletic, Lady in Leis,NMT, Newmark Tech, Petra Diamond Ord & Wrts (AIM), Alliance & Leic (BnkR), Downing Hlcare Prot VCT (InvC), Eagles (Leis), Cable & Wireless Comms (Telcoms). Deletions: East Midland (Elct), Greenvale, Ntugini (Extn), Premium Undwrtg (Insce), Clyde Petm (OilE), Fiscal Ord & 7 1/2pc Ln (Prop), Page M (SpSv).

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To order, call 0121 200 4678.
Reports published by ShareFinder.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK Prof Advisers 0800 414181 — Jersey 01534 71696
Private Clients 0800 414181 — 00 352 250404230
From O'seas (44) 1732 777377 — Hong Kong (852) 848 1000

	Init Charge	Notes	Selling Price	Buying Price	Yield Gr's	City-Line
A$ Accum			A$19.749		4.50	40907
ASch Accum			Sch252.19		2.20	47844
C$ Accum			C$18.947		2.00	40941
DM Accum			DM38.801		1.90	41228
DFl Accum			DFl32.021		2.00	40800
ECU Accum			Ecu13.749		3.00	41238
FFr Accum			FFr67.958		2.20	41282
HK$ Accum			HK$124.52		5.00	41516
Lire Accum			L24580		8.00	41385
NZ$ Accum			NZ$41.636		5.00	41544
NKr Accum			NKr114.20		1.90	40946
S$ Accum			S$26.391		1.70	40950
SPta Accum			Pta2624.9		4.30	80124
£ Accum			£13.949		5.30	41545
SKr Accum			SKr123.40		3.00	40954
SFr Accum			SFr28.479		0.00	41550
US$ Accum			$24.184		4.80	41575
Yen Accum			Y2882.1		0.10	41552

Prices for dealing June 13

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Offshore Funds and Insurances

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[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

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OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

US INDICES

Dow Jones	Jun 13	Jun 12	Jun 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7782.04	7711.47	7575.83	7782.04 (13/6)	6391.69 (11/4)	7782.04 (13/6/97)	41.22 (8/7/32)
Home Bonds	102.84	102.85	102.60	103.83 (19/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2741.67	2680.94	2676.49	2741.67 (13/6)	2222.07 (2/1)	2741.67 (13/6/97)	13.23 (8/7/32)
Utilities	224.60	223.38	220.56	240.85 (22/1)	208.47 (25/4)	258.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7845.82 (7741.42) Low 7663.42 (7569.66) (Theoretical‡) Day's high 7798.68 (7712.85) Low 7712.87 (7573.96) (Actual‡)

Standard and Poors	Jun 13	Jun 12	Jun 11	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	893.27	883.48†	869.57	893.27 (13/6)	737.01 (2/1)	893.27 (13/6/97)	4.40 (1/6/32)
Industrials♥	1050.54	1038.79	1022.51	1050.54 (13/6)	866.42 (11/4)	1050.54 (13/6/97)	3.52 (30/6/32)
Financial	102.48	101.44	98.68	102.48 (13/6)	80.75 (2/1)	102.48 (13/6/97)	7.13 (4/8/74)
NYSE Comp.	465.17	460.84	453.50	465.17 (13/6)	380.47 (11/4)	465.17 (13/6/97)	4.64 (25/4/42)
Amex Comp.	630.10	626.12	622.67	630.10 (13/6)	541.20 (28/4)	630.10 (13/6/97)	524.20 (10/7/96)
NASDAQ Cmp	1423.03	1411.32	1407.85	1423.03 (13/6)	1201.00 (2/4)	1423.03 (13/6/97)	54.87 (3/10/74)

■ RATIOS

	Jun 6	May 30	May 23	Year ago
Dow Jones Ind. Div. Yield	1.70	1.73	1.69	2.16
	Jun 11	Jun 4	May 28	Year ago
S & P Ind. Div. yield	1.62	1.69	1.67	1.87
S & P Ind. P/E ratio	24.13	23.32	23.66	22.50

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Ph Morris	12,919,300	46¼	+1⅝
Du Pont	7,677,200	58⅝	+1
AT &T	6,741,200	37⅞	+¼
Vodafone	6,461,000	48⅝	+⅝
Pepsico	5,672,900	39	+⅝
GEC	5,322,300	66⅛	+1
Monsanto	5,063,100	42⅞	-3¼
Am Express	4,808,400	76⅝	+3¼
CUC	4,783,100	26⅛	+½
Motorola	4,675,800	70	+⅞

■ TRADING ACTIVITY

● Volume (million)

	Jun 13	Jun 12	Jun 11
New York SE	572.698	597.553	517.241
Amex	22.325	21.450	20.087
NASDAQ	(u)	639.965	631.851
NYSE			
Issues Traded	3,383	3,383	3,372
Rises	1,736	1,872	1,515
Falls	812	734	1,030
Unchanged	835	777	827
New Highs	473	450	293
New Lows	7	16	15

■ S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Jun	888.00	884.25	+8.15	897.50	886.10	48,271	110,535
Sep	894.70	903.45	+8.35	906.40	893.50	86,693	97,132

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Sep	20600.0	20590.0	-	20860.0	20500.0	27,534	153,740

Open interest figures for previous day.

● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ... highs and lows are the averages of the highest and lowest prices reached during the day by each ... highs and lows represent the highest and lowest values that the index has reached during the day. (The ...) ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Friday, June 13, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sakura Bank	13.3m	820	+25	Ind Bk of Japan	8.2m	1540	+60
NKK Corp	10.4m	238	+2	Fuji Bank	8.2m	1660	+60
Sumitomo Bank	9.3m	1830	+60	Fujitsu	7.9m	1480	+10
Nippon Steel Cp	9.2m	345		Toshiba Corp	7.8m	755	+4
Bk Tk-Mitsubishi	8.8m	2150	+10	Sumitomo Tr & Bk	7.5m	1210	+60

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4 pm close June 13

NEW YORK STOCK EXCHANGE PRICES

- A -

1997 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
32⅜	24¼	AAR	0.48	1.5	24	318	32⅛	31⅞	32⅛	+⅛
43	33¼	AMP	1.04	2.5	33	4286	42⅛	40½	41⅝	+⅞
103¼	78¼	AMR			7	7368	96⅞	93¾	96	+2⅛
37⅝	31½	ASA	1.20	3.7	21	299	33¼	32⅝	32⅝	-⅝
67½	49¾	AbbtL	1.08	1.6	26	12082	66⅞	65¼	66⅝	+¼
19⅝	14⅛	Abitibi Pr	0.40	2.3	8	z0	17⅞	17¾	17¾	
20	17⅜	ABM Ind	0.40	2.0	17	223	19¾	19⅝	19¾	
23	17¾	Acptcsta			11	98	22¾	22¼	22¾	+¼
67⅞	56⅛	ACE Ltd	0.88	1.3	11	755	u69⅛	67½	69	+1¾
10¾	10	ACM Gvt In x	0.90	8.7	11	89	10½	10⅜	10⅜	
7⅝	7	ACM GvOpp x	0.63	8.4		437	u7⅝	7⅜	7½	+⅛
9⅞	9¼	ACM Mgn x	0.90	9.1		166	u9⅞	9¾	9⅞	
10⅜	6¼	Acme Elect				46	7⅛	7	7	
20	13	Acme Mills				73	17⅞	17¼	17⅞	+⅛
19	14	ACNielsen			34	3137	18⅞	18½	18¾	-¼
39⅞	27¼	Acordia	0.80	2.0	19	295	u40	39¾	40	+⅛
29¾	21⅛	Acuson				506	22⅞	22	22¾	+¼
22¾	19⅜	Advanst Expr	0.55	2.4	1	332	u22⅞	22¾	22¾	+⅛
40½	24⅞	AdvMic				31994	38½	36⅝	38⅞	-1
18⅛	10⅝	Advest Grp	0.03	0.1	16	5526	u24½	21⅞	23¼	+5⅛
16	11⅜	Advo Inc			19	573	u16⅛	15⅞	16	
78⅝	61⅛	Aegon$	1.31	1.8	20	4213	73½	72¼	72½	-⅝
5⅛	3⅛	Aeris				207	4	3⅞	3⅞	-⅛

1997 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25½	15⅜	BayNtwks				33302	24⅛	22⅝	23⅝	+⅝
28¼	25¼	Bay St Gas	1.54	5.7	14	155	27	26⅝	27	+⅜
29¾	15¼	BBN				45	29	28⅞	28⅞	
20¼	19¼	Bd Tr 1838	1.56	7.9		2	19¾	19¾	19¾	
8¼	7½	BEA Inc$ x	0.72	8.8		2112	u8⅜	8⅛	8⅛	-⅛
9⅝	9	BexStrat$ x	0.81	8.6		28	u9⅝	9½	9½	
35⅞	26	BearSt	0.60	1.7	8	2107	u36⅞	35¼	35¼	-⅜
36½	27½	Bearings	0.64	1.8	18	100	36¼	35⅞	36¼	+¼
49¼	37	Beckman In	0.60	1.2	18	272	u49⅝	47⅞	49¼	+⅛
53	42¾	BectnD x	0.52	1.0	22	2814	52⅞	51¾	52¼	
21¼	16⅝	BdrdProp	1.08	5.8	15	30	18¾	18½	18¾	+¼
75⅞	56¾	BellAtl	2.96	3.8	18	7400	u77⅞	75⅝	77¼	+1¾
19.92	13⅞	Bell In			11	81	16¾	16⅜	16⅜	-⅛
47⅝	38¼	BellSth	1.44	3.0	18	13201	u48⅝	47	48⅛	+⅞
40⅝	33¼	Belo A x	0.44	1.1	18	4812	40⅛	39½	39¾	-¼
43⅝	33⅝	Bemis	0.80	1.9	23	1579	43⅜	42⅝	43⅛	+⅜
67	63¾	Benef 4.3P	4.30	6.6		z0	65¼	65¼	65¼	
75¾	59½	Benef x	2.08	2.9	14	1474	71⅝	70⅝	71¼	+½
28⅜	22⅞	Benetton A x	0.39	1.3	18	22	u29½	29¼	29⅜	+1¼
½	¾	Benguet B			15	29	½	½	½	
31	22	BergBr	0.48	1.6	19	958	30	29⅞	30	
47000	33000	BerkHA				3	u48600	47900	48600	+1100
1590	1068	BerkHB				64	u1624	1602	1623	+34
16¾	13⅞	Berry Petr x	0.40	2.6	18	69	15¼	15	15¼	-⅛
14⅜	7⅞	Best Buy				1957	12⅜	11⅞	12	-⅝
27½	25¾	Beth St 2.	2.50	9.3		6	27	27	27	
53⅛	49⅞	BethSt Pf	5.00	9.6		4	52¼	52⅛	52¼	-⅛
10⅜	7⅝	BethSt				4061	9¾	9⅝	9⅝	-¼
67	54⅞	Btzco	1.50	2.3	31	772	u67⅞	66½	66⅝	-⅜

Continued on next page

NYSE PRICES

4 pm close June 13

Continued from previous page

12	10¾	ZweigFd♣	1.16	9.8	183	11⅞ 11⅞	-⅛
8⅞	8	Zweig Tot x	0.84	9.6	212	8¾ 8⅝ 8¾	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. a-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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AMEX PRICES

4 pm close June 13

NASDAQ NATIONAL MARKET

4 pm close June 13

- D -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
DSC Cm			12489	24½	23¼	23⁷⁄₁₆	-⅛
Dart Grps x	0.13		7	103½	97½	97½	-6
Dataflex			111	3⁹⁄₁₆	3⅝	3⅝	-⅜
Datascope		73	253	20¾	20⅛	20⁷⁄₁₆	-⁵⁄₁₆
DauphinDp	1.20	19	1422	u45½	45¼	45⅜	
Deb Shops	0.20		4	4¼	4¼	4¼	-⅟₁₆
Dekalb Gn x	0.28	51	389	78⅛	73¼	75⅝	+2⅛
Delchamps	0.44	35	108	28⅛	27¾	28⅛	+⅛
DellComp		40	60939	115	110¼	111⅛	-1⁵⁄₁₆
Dentply	0.37	18	17813	49⅝	48	49⅛	-¼
Devcon			192	5	d4¼	4⅞	-⅜
DH Tech		63	57	16¼	15⅞	15⅞	-⅜
Digi Intl			1415	10⅞	10	10⅛	-⅜
Dig Micro		40	1009	28	27½	28	+½
Dig Sound			585	1⅟₁₆	1⅟₁₆	1⅟₁₆	-⅟₃₂
Dig Syst		15	20	14⅝	14⅝	14⅝	
Dionex Cp		26	246	52¼	51½	51⅝	+⅛
Dixie Ym			438	u9⅞	9⅛	9¼	

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx♣			3218278	48⅛	46¼	47	+⅝
Xircom			1824636	11⅛	9⅝	11	
Xoma Corp			942	5⁵⁄₁₆	4¹⁵⁄₁₆	5	-⅟₁₆
Yellow			5324	u23	22⅛	22⅞	+⅞
York Rsch		16	252	7½	7¼	7⁷⁄₁₆	+⅟₁₆
ZionsUtah	0.44	18	5142	34	31¾	33⅛	+1½

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$5		0	8.25	4.375	Esprit Telecom ADS	US$8.625	+0.125	700	12.25	5.375
Artwork Systems	US$10.5		37868	11.125	8.5	Infogramatics	US$11.75		32260	12.75	10.375
Chemunex	FFr16.5	+0.5	137000	18	14	Mercer Internl.	US$10		0	11.75	8.125
Dr Solomon's ADS	US$24	-0.125	2000	28.5	16.875	PixTech	US$4.125		20000	8.125	3.875

Prices for 13/6/97 Please note that mid prices are now used to calculate highs and lows.

Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel. 32-2 / 227 65 20) and in London (Tel. 44-171 / 489 9990).

FT GUIDE TO THE WEEK

MONDAY 16

Moving numbers

UK companies offering free-phone or low cost, premium line and multi-line number services will have a broader choice of service provider from today with the introduction of number portability. This allows companies to retain their number when switching operator, making it easier to move to a carrier offering lower tariffs or better services. More than a quarter of television advertisements now carry a freephone number. In the US, the freephone market exploded after the introduction of portability.

EU Amsterdam summit

Leaders of the 15 European Union nations gather in Amsterdam (to June 17) for a summit aimed at agreeing a new EU treaty – the climax of 15 months of negotiations in the inter-governmental conference. But top of the agenda may be the need to find a compromise between France and Germany over the stability pact to enforce fiscal discipline in the single currency zone. France wants commitments to job creation to counter-balance the German-devised pact.

Leaders have four main treaty issues to resolve: rules governing flexibility, whereby some countries can co-operate more closely without being held back by others; Franco-German plans for an eventual merger of the EU and the Western European Union, its defence arm; new EU-wide rules on asylum, immigration and visa policy, with opt-outs for the British and Irish; and the reform of institutions and decision-making ahead of the proposed enlargement into central and eastern Europe.

Online New York

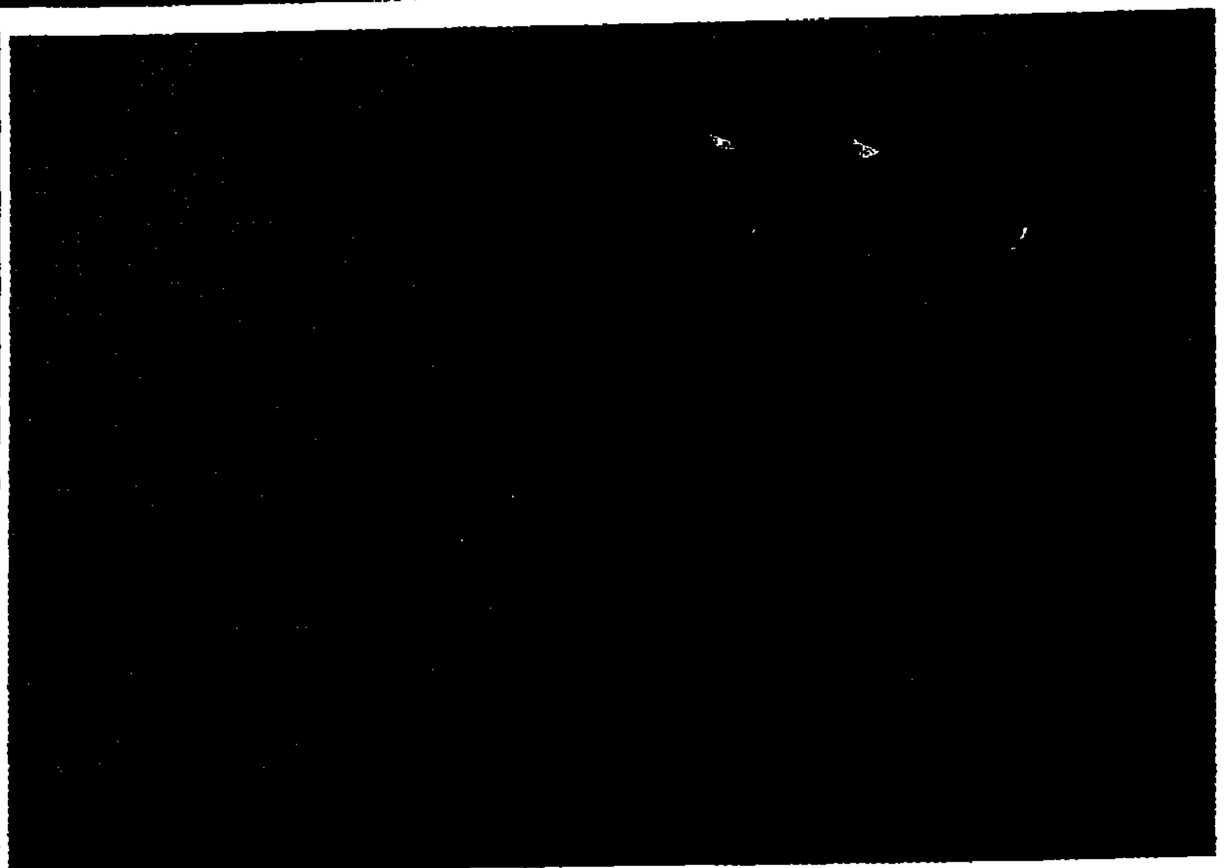
PC Expo comes online in New York at the Jacob K. Javits Convention Center (to June 19). The event, described as "the largest desktop computing event for corporate professionals", will unveil an array of products and services covering areas such as the internet and networking. The conference element of PC Expo, which starts today, includes 50 tutorials and sessions on information technology and management as well as addresses by Microsoft's Steve Ballmer and Hitachi's David Hancock. The exhibition starts on June 17 (to 19).

Tennis

Women's tournament (to June 21) Eastbourne, England.

FT Survey

Hong Kong



Infighting in Albania: an international conference in Rome will try to contribute to stability

Public holidays

Argentina, South Africa, Bermuda

TUESDAY 17

Bank sell-off in Brazil

The privatisation of Brazil's banks is due to get underway with the auction of Banerj, the retail bank owned by the state of Rio de Janeiro, for a minimum price of R$310m (£177m). The auction was scheduled for December last year but postponed because of legal action by the bank's employees. Eight banks, including several foreign institutions, have pre-qualified to bid for Banerj. However, not all are expected to take part in the closed envelope auction.

Tory leadership: round two

The contest for the leadership of the British Conservative party reaches its second round with the 164 Tory MPs offered a choice between Mr Kenneth Clarke, the former chancellor, Mr William Hague, the former Welsh secretary, and Mr John Redwood, a rightwing challenger. The betting is that none will get the 83 votes required for outright victory and Mr Redwood will come last. He would then drop out, leaving Mr Clarke and Mr Hague to contest a third round on Thursday.

Safety at issue

A meeting of EU transport ministers in Luxembourg (to June 18) is expected to be dominated by safety issues. Ministers will discuss plans for new assessment procedures for non-EU aircraft using EU airports, air traffic control, and plans for an EU-wide air safety body. Also on the agenda are new rules on tachographs for road transport, and special charges, called Eurovignettes, for heavy loads using some environmentally-sensitive routes.

All that Jazz

The Glasgow International Festival starts to swing. It includes groups led by Nat Adderley and Maynard Ferguson from the US; guitarists Martin Taylor and Babik Reinhardt (son of Django) and the French clarinettist Louis Sclavis. The festival continues to July 6.

Horse racing

Royal Ascot (to June 20) Ascot, England. Gold Cup on Thursday.

Public holidays

Iceland

WEDNESDAY 18

Lowry works go on sale

British 20th century art comes under the hammer in London this week with sales at Sotheby's today and Christie's tomorrow. Prices for some artists have been improving strongly in recent months, particularly for the work of L.S. Lowry. "Leaving the mill", painted in 1963, carries a top estimate of £150,000 at Sotheby's, as does "Jackson's auction and saleroom" of 1952, while "Cranes and Ships" has a top estimate of £70,000 at Christie's. In the 1970s, it was the first Lowry painting to make £1,000.

De Beers sales results

De Beers' Central Selling Organisation, which operates the international rough (or uncut) diamond cartel, today gives details of first-half sales. Since the middle of last year, two of the biggest producers have left the CSO. Argyle of Australia quit because it believed it could do better on its own and De Beers dropped Russia, claiming it was not living up to the spirit of their old contract. Nevertheless, traders believe the CSO has been digging deep into its stocks and will announce sales ahead of the record $2.78bn for the first half of 1996, possibly as much as $2.85bn.

Japan's MPs take a break

Japan's parliament ends its current session today. Discussion of controversial bills, including legislation to permit doctors to conduct organ transplants and a proposal to allow married women to retain their maiden names, is likely to be suspended until an extraordinary session is convened in the autumn.

Albania conference

An international conference in Rome will discuss political, economic and financial issues with the aim of contributing to Albania's stabilisation.

THURSDAY 19

Greenhouse gas move

A significant move towards an international market in greenhouse gas emissions is being made under the auspices of the United Nations Conference on Trade and Development and the Earth Council, an international organisation set up after the 1992 Earth Summit. More than 50 senior policy-makers and corporate executives will meet in Chicago (to June 20) to inaugurate a policy forum on greenhouse gas emissions trading. Its aim is to provide support for the launch of such a market, with a target date of early 2000. The market is based on a US approach under which emissions are capped in line with environmental goals, but companies holding emissions below the cap can sell spare capacity to other businesses.

Mercosur meeting

Heads of state from Mercosur, the four-nation South American trade grouping, meet in Asuncion, the capital of Paraguay, for their twice-yearly summit. The other members of Mercosur are Brazil, Argentina and Uruguay while Bolivia and Chile are associate members. Peru also wishes to become an associate member.

Jospin speech

Mr Lionel Jospin, France's new Socialist prime minister, makes a keenly awaited speech on general policy to the National Assembly. The speech – Mr Jospin's first major policy address since the general election on June 1 which ended four years of centre-right rule – is intended to tell parliament how he will translate his election promises into policy.

It is hoped Mr Jospin will provide more details, in particular, on how the government intends to fulfil a pledge to create 700,000 new jobs for young people without raising public spending and what its attitude will be towards privatisations planned by former prime minister Alain Juppé's administration.

Asylum conference

The Dutch justice ministry hosts an international conference on European policy on asylum seekers in The Hague, attended by EU member states, central and east European countries, representatives from Switzerland, Norway, the US and Canada. Speakers include representatives from the UN High Commissioner for Refugees and the European Council for Refugees and Exiles (to June 20).

Vietnam revisited

Former US defence secretary Robert McNamara, US academics and Vietnamese officials attend a seminar in Hanoi to discuss "Missed Opportunities in US-Vietnamese History" (to June 22).

Cricket

England, after their comprehensive victory in the first test, play Australia in the second test at Lord's in London where England have not won an Ashes test since 1934 (to June 23).

FT Surveys

Management Consultancy, Power Generation Equipment

Public holidays

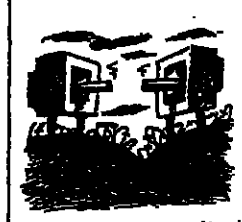
Algeria, Trinidad, Uruguay

FRIDAY 20

Okinawa remembered

Memorial services for Okinawan war dead are to be held in Okinawa in Japan's far south. The annual event marks the end of the Allied invasion of Okinawa, which began on April 1 1945 and was a turning point in the Pacific war. More than 250,000 Japanese, many Okinawan residents, died in the 82-day battle, which also claimed 12,500 US lives and destroyed the island's economy. This year's ceremony comes at a sensitive time, soon after Japan's parliament approved legislation empowering the government to extend the occupation of Okinawan land by US military facilities.

Lessons of war



The International Committee of the Red Cross hosts a round table in Geneva on the war in former Yugoslavia and the roles of the media and humanitarian organisations (to June 21). The experience of that war may help to guide action in new conflicts around the world where there are growing difficulties in helping conflict victims, the ICRC says.

FT Survey

International Corporate Finance

Public holidays

Finland, Sri Lanka, Sweden

WEEKEND 21-22

G7 discusses job creation

Leaders from the Group of Seven nations meet in Denver, Colorado, this weekend. Attending for the first time will be the leaders of two newly-elected governments: Mr Tony Blair, from the UK's Labour party, and Mr Lionel Jospin, of the French Socialist-Communist coalition. They join Canada's Liberal government to give the summit a solid centre-left grouping. With most of the G7 leaders struggling with unemployment at home, job creation is expected to be a major theme of the summit.

Rugby Union

South Africa play the touring British Lions in the first test at Cape Town on Saturday.

Public holidays

Sweden

Compiled by Bob Vincent
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: German M3 money supply, to be released during the week, is expected to return to the corridor of an annualised growth rate of 3.5 per cent to 6.5 per cent in May, after a rise by 6.7 per cent in April.

Tuesday: US consumer price inflation may have been capped by lower energy prices, but there remain concerns about the trend. The markets are looking for the headline inflation rate to have remained at 2.5 per cent in May, unchanged from April.

Wednesday: The foreign exchange markets will be looking keenly to the Japanese trade surplus in May. Deutsche Morgan Grenfell predicts a 218 per cent year-on-year rise to Y729bn because of buoyant exports.

Thursday: Germany's Ifo business index is expected to have improved further in May. The markets are looking for an increase in the index from 94.7 to 95.0.

Friday: The CBI Monthly Trends Survey in June is expected to show that UK domestic demand continues to compensate for weak export performance, with little pressure on prices.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Apr industrial production† revised		-0.4%
Jun 16	Japan	Apr shipments† revised		-2.4%
	Japan	May Tokyo department store sales**		-14.4%
	Malaysia	May consumer price index**	2.7%	2.6%
	Germany	Apr retail sales, real** not†	-0.8%	-3.0%
	Switzlnd	May producer price index**	-0.2%	-0.9%
	Italy	Apr producer price index**	1.0%	0.9%
	Italy	Apr wholesale price index**	-0.3%	0.3%
	Spain	Q1 surveyed wage rises**	4.0%	4.4%
Tue	UK	May public sector borrowing req'ment	£3bn	£-36m
Jun 17	US	May consumer price index	0.2%	0.1%
	US	May cons price index ex-food & energy	0.2%	0.3%
	US	May housing starts	1.45m	1.47m
	US	May building permits		1.44m
	US	BOT-Mitsubishi 14 June		0.7%
	US	May industrial production	0.2%	Unch'ged
	US	May capacity utilisation	83.4%	83.4%
	US	May real earnings		-0.9%
	Japan	May money supply (M2+cert deposit)**	2.1%	3.1%
	Japan	May broad liquidity**		3.9%
	Japan	May trade bal (custom cleared, not†)	Y550bn.	Y229bn
	Mexico	Apr industrial activity**	6.6%	4.2%
	Portugal	May consumer price index**	1.6%	1.8%
Wed	China	May consumer price index	2.8%	3.2%
Jun 18	UK	May retail sales*	0.3%	0.1%
	UK	May retail sales**	4.6%	4.7%
	Sweden	Apr current account	SKr5bn	SKr4.4bn
	Canada	Apr wholesale trade*†		-2.7%
	US	Q1 productivity revision		2.0%
	Japan	May wholesale price index 1st 10 days		-0.3%
	Nethlnds	May unemployment	5.8%	6.0%
Thu	Germany	May IFO West, business climate index	95.0	94.7
Jun 19	Germany	May IFO West, balance format		-5.5
	US	Apr trade: goods & services	-$10bn	-$8.5bn
	US	Q1 current account		-$41.4bn
	US	May export price index		-0.6%
	US	May import price index		-0.9%
	Spain	Apr industrial production**†	4.7%	4.0%
Fri	Japan	Apr Econ Plan Agency coincident index	10%	80.0%
Jun 20	Japan	Apr leading diffusion index	0.0%	30.0%
	France	Apr industrial production ex-energy*	0.3%	0.4%
	US	May Treasury budget	-$49bn	$93.9bn
During the week...				
	Spain	May budget cash balance	-Pta513bn	Pta407bn
	Italy	Jun 11 cities consumer price index*	0.2%	0.3%
	Italy	Jun 11 cities consumer price index**	1.6%	1.6%
	Germany	May M3 from Q4 96 base	6.4%	6.7%
	Germany	May M3 from Q4 95 base	7.5%	7.7%
	Germany	May private lending, six month annual	8.3%	8.5%

*month on month, **year on year, †seasonally adjusted

Statistics, courtesy Standard & Poor's MMS

MONDAY PRIZE CROSSWORD

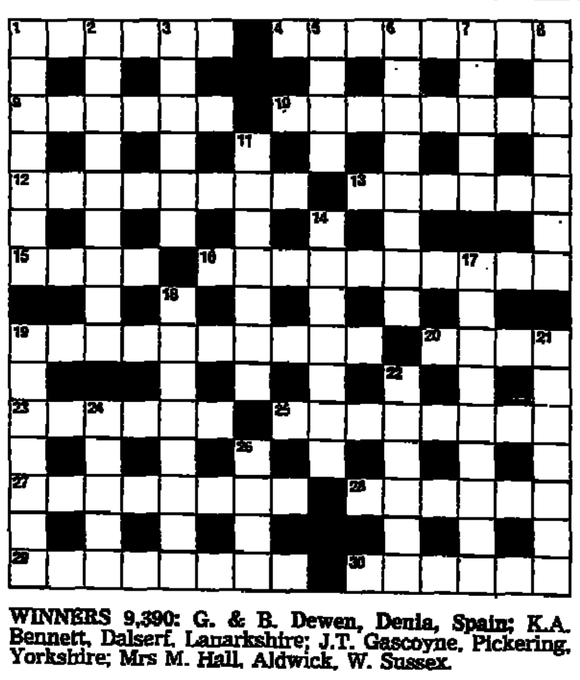
No.9,402 Set by DANTE

ACROSS

1 A hint of promotion (6)
4 Kept woman in standard affair (8)
9 A nut go into this? Yes (6)
10 Pirate captain in awkward spot – they're for hanging (8)
12 Begin to attack (3,5)
13 Approve a head's retirement before the end of August (6)
15 Primate seen around Sunday in church (4)
16 Not a starter in the ocean race (4,6)
19 Powerless supporter of modern sport (4-6)
20 Slight quarrel with father in the street (4)
23 Fingerprinter? (6)
25 Theatre attendant (4-4)
27 Give up control and hang around (4,4)
28 Bill for keeping the peace? (6)
29 Can't have venison without a bottle of wine (8)
30 Point to figure of some importance (6)

DOWN

1 Inability to recall a name is maddening (7)
2 No curates should take her out (9)
3 Close ran bye – got out (6)
5 Eager to work in silver (4)
6 Attachment had noise coming from it (8)
7 Over one ounce of oxygen (5)
8 A political favour? (7)
11 Involved in a cult that's crazy (7)
14 Tempers shown by a girl at a jumble sale (7)
17 Carpeting material not staying put (9)
18 It is used for shelling before the soldiers go in (3,5)
19 At heart he'd a desire to get married (7)
21 The agony of men in the wrong (7)
22 My job envy lacks point, somehow (2,4)
24 Parking. I can set alarm (5)
26 He has to live with a goddess (4)



WINNERS 9,390: G. & B. Dewen, Denia, Spain; K.A. Bennett, Dalserf, Lanarkshire; J.T. Gascoyne, Pickering, Yorkshire; Mrs M. Hall, Aldwick, W. Sussex.

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday June 26, marked Monday Crossword 9,402 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 30. Please allow 28 days for delivery of prizes.

Name...

Address..

....

Solution 9,390

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SIXPENCE PRISON
U E X A F E T E
TENET PHOSPHATE
U O R R R R Y D
REPEATING EASEL
E H O C E S E
 HOARSE THERMOS
S B D N A S
CREVICE BOTANY
R N M R A I B
EXTRA BEAUTIFUL
E R R L S I E T
NOISINESS VISIT
E A L M I E T H
DELAYS SEASHORE
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JOTTER PAD

هكذا من الاصل

FINANCIAL TIMES SURVEY

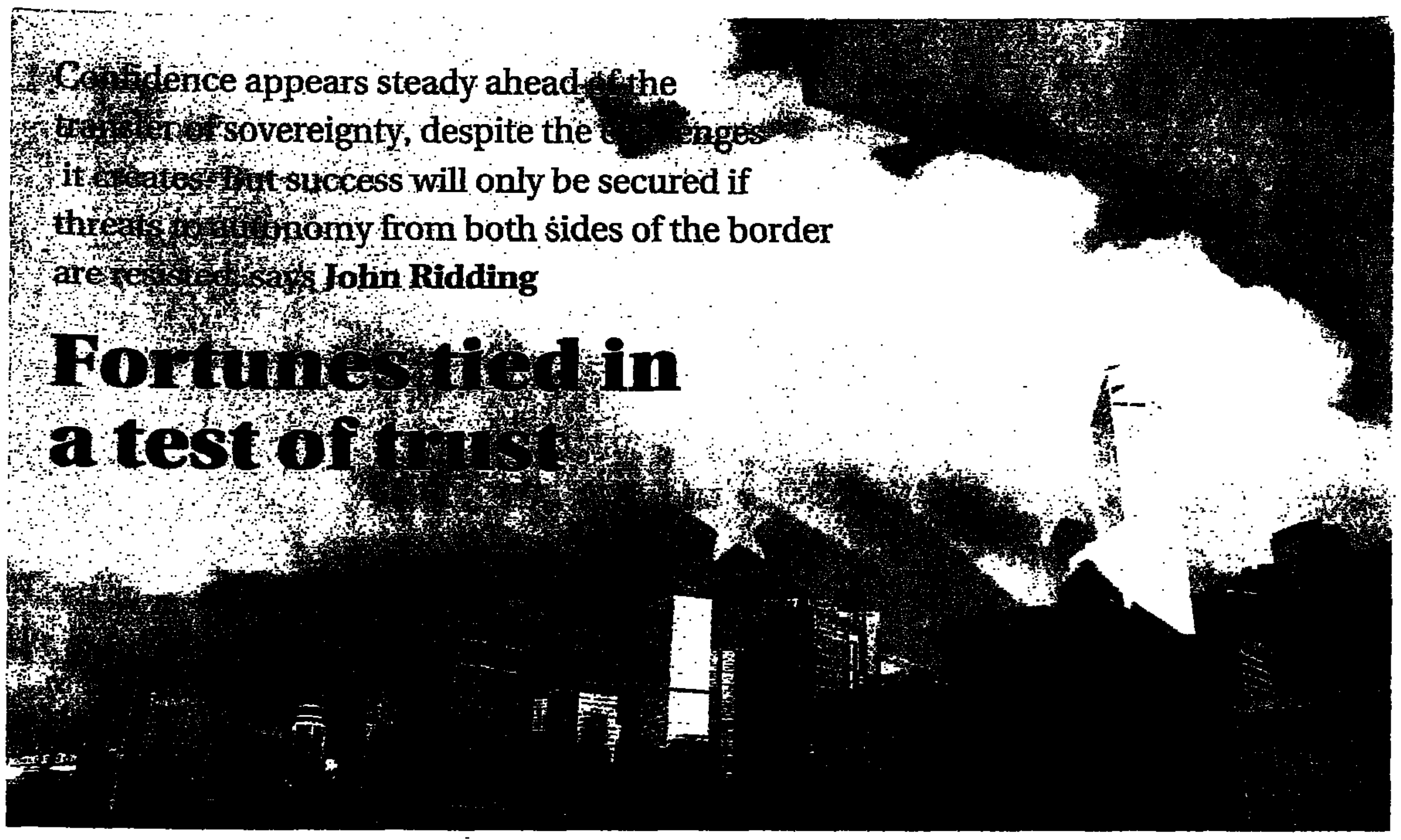
Monday June 16 1997

HONG KONG RETURNS TO CHINA

inside

Confidence appears steady ahead of the transfer of sovereignty, despite the challenges it creates. But success will only be secured if threats to autonomy from both sides of the border are resisted, says **John Ridding**

Fortunes tied in a test of trust



When the Union flag is lowered over Hong Kong harbour two ...s from today, and the red ... of China is hoisted in its ..., the ceremony will be well ...arsed, the protocol practised. ... there are no precedents for ...t comes next, the return of a ...ant capitalist territory to a ...munist state.

...here are no guides in his... no books to turn to," says ...ung Chee-hwa, the shipping ...on who, as Hong Kong's post ...ial leader, will steer the ter...y from British to Chinese ...reigns under the "one coun... two systems" formula.

...at journey will prove crucial ...oth sides of the border. For ...a, the handover symbolises ...se as an economic and politi... force. Success in harnessing ...g Kong would fuel its indus... and financial development ... could help lure Taiwan back ...e fold. "It is the first step in ... long march," says President ...g Zemin, referring to the goal ...tional reunification.

... turbulent transition or bro... promises over Hong Kong's ...nomy, would add to Beijing's ...ens. Apart from reducing the ...pect of peaceful unification ... Taiwan, it would threaten ...stor confidence and diplo...ic ties. Another obstacle ...ld be added to the Sino-US ...tionship, the most important ...e coming decades. At home, ... leadership has presented the ...dover as an historic event. ... mis-steps would deal a ...y blow ahead of the autumn ...y congress.

...r Hong Kong the handover ...d strengthen its role as the ...mo for the mainland econ... and its standing as the ...on's most vibrant business ...re. But the risk is a reversal ... remarkable climb that has ...elled the "barren rock" once ...raged by Lord Palmerston ...nd the wealth of its colonial .... Market-driven economics ...entrepreneurial energy have ... financial reserves to ...0bn and average incomes to ... than US$25,000 a year.

...idence on the eve of the transition gives cause for economic confidence and for political concerns. Hong Kong approaches the handover in surprisingly robust shape, leaving far behind the gloomy predictions of the 1980s and their warnings of capital flight and mass emigration. Returnees have outnumbered migrants over the past few years, while opinion polls betray few signs of anxiety. Although volatile, the stock market has hit records in recent months, outperforming many regional rivals.

Growing integration means Hong Kong's economic fortunes are determined increasingly by performance north of the border. So the rapid growth and low inflation engineered by Beijing's planners have further boosted the territory's business bulls. "We will see a deepening in economic ties after the handover," says Mr Henry Cheng, managing director of New World Development, the property giant.

His company has already spent US$3bn in mainland cities and has earmarked up to US$15bn more, mainly in low-cost housing, infrastructure and sectors supporting China's modernisation. For many businessmen, this optimism is not based solely on commercial opportunities, however. Chinese reforms are irreversible, they claim. They predict improved living standards and, in time, increased social freedoms.

For businessmen, the issue is not the handover but the need to stay competitive in the face of rising regional competition from Singapore to Shanghai. So Mr Tung's corporate background – and his image of integrity – have secured their support. His criticism of the "politicisation" of the territory has struck a chord, as have his moves to instal an executive-led administration.

Economic confidence has been reinforced by Beijing. "We will not interfere," says Mr Li Lanqing, vice-premier. "I am responsible for economic relations and trade and I have never even been to Hong Kong." Mainland-backed companies such as Citic Pacific have emerged as pillars of the local establishment. And so far, at least, they have played by the rules of the game. A recent surge in capital-raising in the territory has prompted concerns about the transparency of so-called red-chips. But it has also underlined Hong Kong's position as the financial centre for China.

It is economics that best demonstrates the identity of interests between China and Hong Kong on which Mr Tung bases his optimism. But away from the business world dominating Hong Kong society, uncertainties and fears remain. There is nothing to suggest a collapse of confidence or rapid decline, more a worry that curbs on social and political freedoms will sap Hong Kong's vitality and erode its edge as an international business centre.

China's tight political and economic controls raise suspicions about its willingness to trust Hong Kong and its understanding of what makes it tick. Fears that the territory could create a base for subversion have prompted tougher laws on civil liberties and the dismantling of democratic reforms. "By attempting to exert control they will damage Hong Kong," warns Ms Margaret Ng, an independent legislator.

Controversy has focused on the legislature and social freedoms. In two weeks, the elected legislature will be booted from office, to be replaced by a provisional body selected by a Beijing-backed committee. Although its term is limited to one year, it has polarised Hong Kong politics and is now faced with potentially disruptive legal challenges from pro-democracy forces. They warn that the body lacks the credibility needed to maintain Hong Kong's autonomy, the rule of law and the cosmopolitan character which gives the territory its edge.

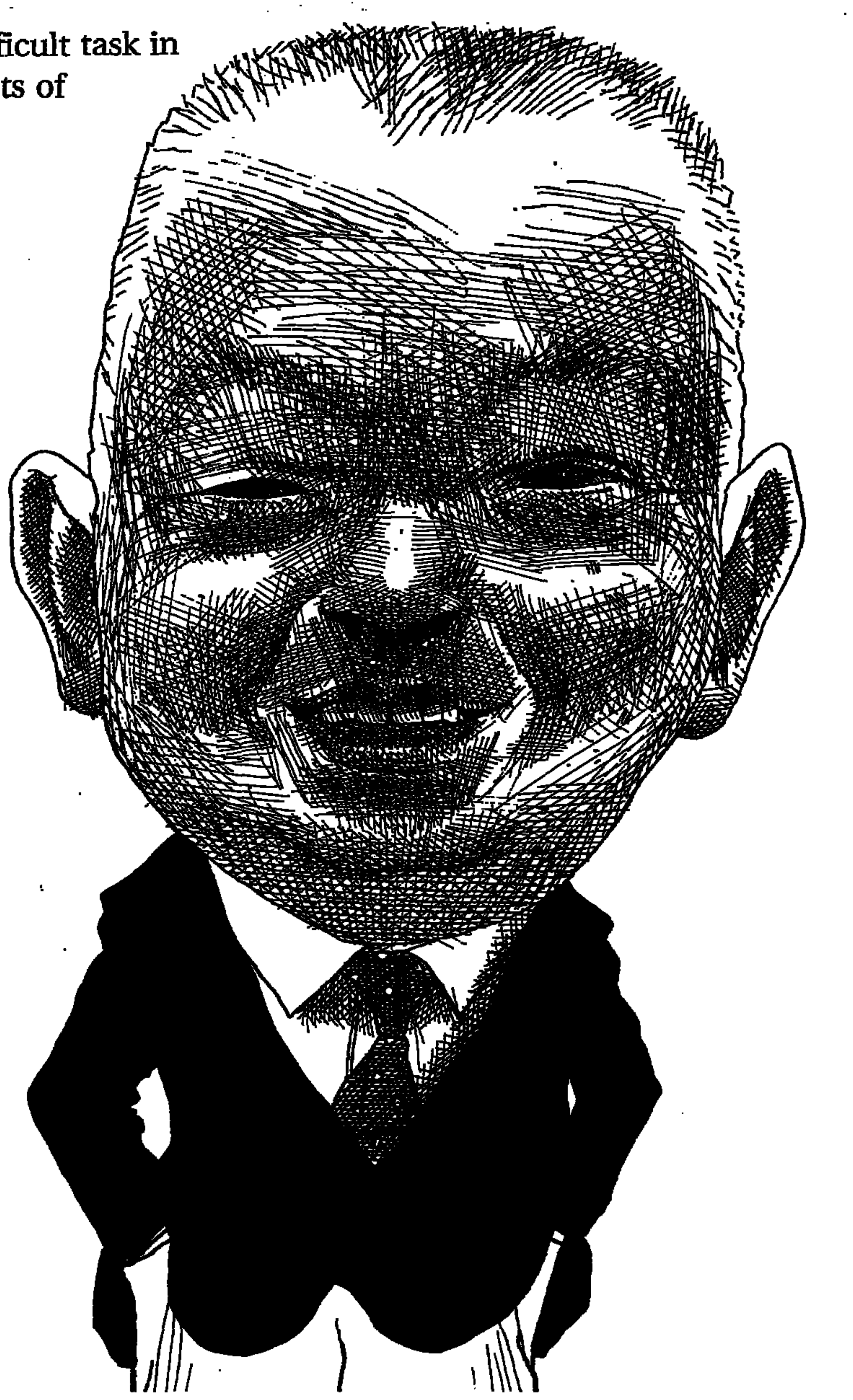
Similar concerns surround curbs on civil liberties, which have granted police greater powers over public demonstrations and tightened regulations governing political parties. More broadly, signs of self-censorship in the media have prompted worries about creeping political correctness. "Hong Kong people themselves are surrendering their autonomy," says Ms Emily Lau, a pro-democracy legislator. "There is a belief that criticising China is bad for business, and that is very dangerous."

Warnings have not been limited to Hong Kong. "There is no firewall between economic freedom and freedom in its many other dimensions," says Mr Lawrence Summers, deputy secretary of the US Treasury. "If China handles the transition poorly, if it encroaches upon Hong Kong's autonomy, Hong Kongers have the ability to make such actions very costly, either by leaving Hong Kong or by transferring their funds out of the territory."

Continued on page 3

Hong Kong's future leader is faced with a difficult task in striking the right balance between the interests of the territory and those of mainland China. **John Ridding** assesses the challenge that lies ahead for Tung Chee-hwa, the chief executive

Hot seat for helmsman



Even before Mr Tung Chee-hwa takes office as the territory's first post-colonial leader, the shipping tycoon has been subjected to scrutiny, appraisal and the difficulties of striking a balance between the interests of Hong Kong and the sensitivities of China.

His brief apprenticeship has already curtailed any political honeymoon. But it has also signalled his beliefs, his strengths and his weaknesses ahead of the daunting challenge of steering the territory through the transition.

Since his selection by a 400-member committee last December, Mr Tung has spelled out his conviction that the identity of interests between Hong Kong and China create conditions for a successful transition. "I am confident and comfortable about Hong Kong's prospects under one country, two systems," he says.

His vision for the Hong Kong system is of a strong executive and a "proper balance" between civil liberties and social order. That balance, he admits, is tilted firmly towards the conservative end of the spectrum. Democratic development is desirable, he believes, but must be pursued at a gradual pace.

"In the past five years we have become too politicised as a community," he says. "Politics should be a means to an end, not an end to itself." Emphasising the importance of Chinese values – including respect for the elderly and education – he warns of the social hazards of western liberalism, citing civil action in the US in the 1960s as a formative experience.

Though Mr Tung underlines the positive aspects of western culture – such as creativity and directness – he is clearly impressed by the Singaporean social model. "The whole community has a vision and a clear sense of direction and identity," he says. Lee Kuan-yew, the city state's elder statesman is an idol of his, so is Lady Thatcher.

"In so far as managing economics is concerned, we follow the line, by and large, of non-intervention"

As in Singapore, business ranks at the top of Mr Tung's priorities. But he plays down prospects of a shift towards a more interventionist stance. "In so far as managing economics is concerned, we follow the line, by and large, of non-intervention," Mr Tung says. More support for manufacturing is possible, he says, but not if it requires higher taxes.

It is a message, and a political philosophy, which sits well with Hong Kong's business community. "We have full confidence in him," says Mr Henry Tang, managing director of Peninsula Knitters and chairman of the Federation of Hong Kong Industries.

"There are many people in the business community who want more emphasis on strong government and economic issues and not on politics. They feel political struggles have done a lot of damage."

Foreign businessmen are also ready to line up behind Hong Kong's future leader. One banker involved in the 1980s rescue of Orient Overseas, Mr Tung's family firm, recalls the tenacity he displayed during the financial restructuring and his ability to secure the backing of bankers. "He was patient, skilful and committed," says the banker.

Opinion polls give him an approval rating of more than 50 per cent from the broader community. Controversies over civil liberties legislation have taken their toll, but his standing has been bolstered recently by the appointment of Mr Andrew Li as chief justice.

Even critics point to his honesty and fairness. "He is a nice guy, a man of integrity," says Mr Martin Lee, leader of the Democratic Party. "I cannot dream of him taking a bribe, and he means well."

The problems, according to Mr Lee, are the circumstances in which Mr Tung finds himself, and his conservative political convictions. "Deng Xiaoping said that when there is a good system, even evil men cannot do evil. But when there is no good system, even good men cannot do good," says Mr Lee. "Mr Tung has no popular mandate and was appointed by the Chinese. So he always takes China's side."

Ms Margaret Ng, an independent legislator, argues that even if Mr Tung was willing to stand up to Beijing, his ability to reflect Hong Kong's aspirations are compromised by his convictions and background. "He is out of step with the Hong Kong public," she says. "His views on political development are deeply conservative, and like many heads of Chinese family businesses he has an authoritarian style."

According to critics, these weaknesses have already become apparent. Mr Tung's proposals to amend laws on demonstrations and political organisations – motivated in part by his desire to strike a "proper balance" between civil liberties and social order – prompted an angry reaction from many in Hong Kong. Mr Tung admits that part of his problem in this and other controversial issues has been a failure to get his message across.

That comes down partly to his lack of political experience, although recent appointments and in the handling of controversial issues he has shown a more deft touch.

But Mr Tung's more serious difficulties lie in the legacy of mistrust between Britain and China. "He walked into something of a minefield," says one western diplomat. "His first instinct was to ensure he had Beijing's backing. That might make sense, since he won't get anywhere without it. But it made it hard to present himself as a champion of autonomy."

Mr Tung's task might be easier once the hothouse environment of the transition is able to cool. Installed in his new post, he will also have improved resources to address his challenges. But whether Hong Kong's new leader can keep a steady course, will depend largely on whether China allows him room to manoeuvre.

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Editorial production: Sarah Murray

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Governor Chris Patten's democratic reforms polarised society and led him into arguments with Beijing. But even critics acknowledge his efforts in alerting people to the need for good government and to the responsibility of the ordinary citizen in demanding it, says **Peter Montagnon**

A politician's approach

"The right man, probably for the wrong time." That is how Mr Victor Chu, a Hong Kong businessmen with strong connections on the mainland, describes Mr Chris Patten, Britain's last colonial governor.

Mr Patten brought refreshing changes to Hong Kong that exposed it to politics on a grand stage, he says. The governor encouraged ordinary people to become more involved in civic and political affairs, but his relative inexperience of Asian diplomacy led him into arguments with Beijing that have complicated the reversion to Chinese sovereignty.

It is a typically ambivalent view of one of the most extraordinary governors Hong Kong has seen. From the day of his arrival – in a business suit rather than the traditional plumed helmet and ceremonial dress – Mr Patten made clear that he was different. His disdain for the trappings of office and predilection for walkabouts showed a style far removed from the aloof paternalism of the Foreign Office functionaries who preceded him.

But then, his was a political appointment for a political task. The job of the last governor was not only to hand Hong Kong back in good working order with its freedoms preserved as far as possible, but also to extricate Britain with dignity from its last important colony. "We don't have to leave at midnight on June 30, pursued down the gangplank by editorials in all the world's major newspapers denouncing us for behaving in a shameful way," he says.

In the short run, Mr Patten will probably be best remembered for his decision to proceed unilaterally with the democracy reforms that led to elections for a third of the seats in the Legislative Council in 1995, a move which Beijing regarded as going back on previous agreements with Britain.

Reviled by local business for picking what it regarded as an unnecessary – and economically damaging – fight with China, Mr Patten was also subject to vituperative attacks by senior British officials involved in the original handover negotiations. They argued that the offence to China would wreck confidence and cause Hong Kong to end up with fewer freedoms than would otherwise have been the case.

The rights of the case are hard to judge, since both China and Mr Patten base their case on interpretation of earlier Sino-British agreements, from which the Basic Law, China's constitution for Hong Kong, is derived. China believes these committed the UK not to introduce political reform to which it had not previously agreed, and not to remove some of the repressive old colonial legislation on civil liberties before the handover.

Mr Patten has no regrets. It is sad, he says, that the Legislative Council elected under his democracy reforms is being abolished. The UK could have followed China's bidding, limited reform and excluded Beijing's opponents from participating, but "we would have taken the flak for three or four years, and I don't think that would have been conducive to political or social stability."

Underlying his approach, however, is something deeper, which is easily obscured by the emotional debate on democracy. Mr Patten's reforms were part of a broader effort to alert people both to the need for good government and to the responsibility of the ordinary citizen in demanding it.

In this, even some critics accord him respect. "Most people would agree that in the past five years the government has become more accountable, more transparent," says Mr Tsang Yok-sing, the pro-Beijing politician. "The morale of the civil service remains high and the government has remained very clean. In general people have a much clearer idea about the values of democracy, rule of law, clean government and a level playing field for all."

Mr Patten speaks with pride of the fact that, contrary to the dire predictions of five or 10 years ago, Britain is leaving Hong Kong in good economic order with low inflation and a strong budget. There is none of the galloping corruption that was predicted. The police are still in good shape. Crime is down. The civil service is still working "remarkably well" in spite of the strains of the transition, as is the administration of justice.

"I don't think the past two or three months have been entirely happy, but they have shown the professions, academics, newspapers – particularly Chinese language newspapers – and ordinary punters on phone-in programmes actually standing up for the decencies and freedoms that they have taken for granted," he says.

In stark contrast to his foreign office critics, Mr Patten believes that by making people aware of their democratic and civic rights and responsibilities, he has made it harder for China to trample on those rights after the handover, because the protests will be all the more vociferous. His critics would have liked to "chloroform" Hong Kong through 1997. "That hasn't happened, and I think Hong Kong will have more freedom as a result, not less."

But the price is a polarised society with deep divisions between supporters and opponents of China, just when many argue Hong Kong needs to stand united. There is also no guarantee that the exuberant pursuit of western-style adversarial politics will survive Mr Patten's departure. Even before the handover, he has become less relevant to those being left behind. Only time will tell, says Mr Chu, whether he will be remembered with affection or, chillingly, with indifference.

At least Britain's last governor will be able to say he did his best to make the people of Hong Kong understand that their best chance lies in standing up for themselves and for the values under which they have prospered.

Lily Yam, new head of the Independent Commission Against Corruption, is determined to fight against graft *Marcus Cieniuk*

Fates tied in a test of trust

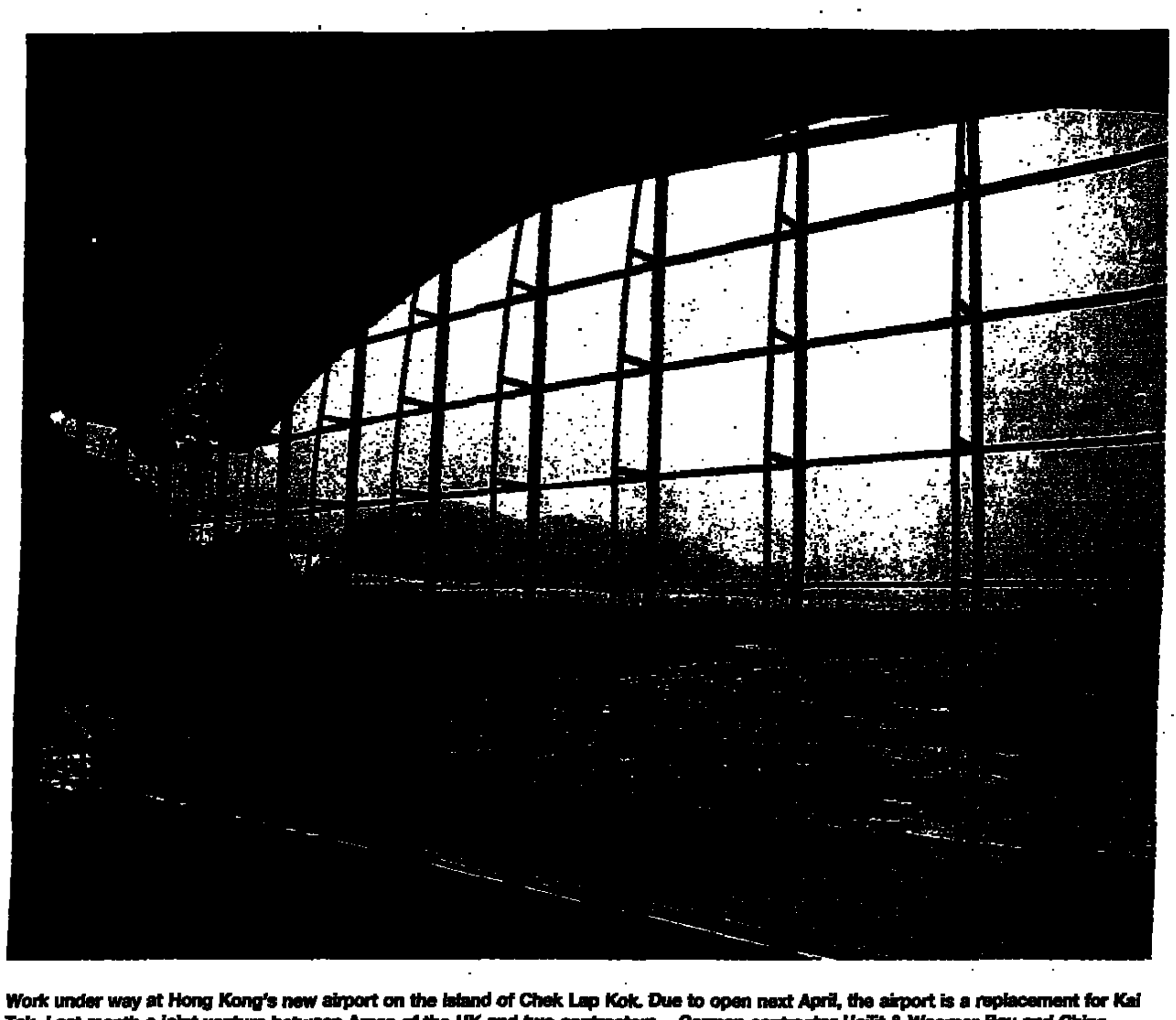
Continued from page 1

Mr Tung insists these pitfalls will be avoided. Rejecting criticism that he is unable to stand up for Hong Kong, he says Beijing is giving him room for manoeuvre. The shipping tycoon describes the provisional legislature as the unfortunate result of Sino-British disputes, rather than a step-back from democracy. And although he admits his political conservatism, he dismisses charges that civil liberties will be weakened, promising to defend Hong Kong's way of life. "That is the responsibility of the chief executive," he says. "That means freedom of thought, freedom of capital, and freedom of the press."

Democrats claim there is limited comfort in a free hand for Mr Tung if it leads to a patriarchal style of government. But there are supports for Hong Kong's institutions. Its civil service, headed by Mrs Anson Chan, has built a reputation for integrity and efficiency. It has also survived as the sole wagon on the political "through train". Ms Lily Yam, the new head of the Independent Commission Against Corruption, appears determined to maintain the fight against graft, while last month's appointment of Mr Andrew Li as chief justice has eased fears about an erosion of the rule of law.

Tests will soon be forthcoming. With world attention focused on the handover, expected protests require careful handling. Despite a setback in the courts last week, pro-democracy groups are proceeding with legal challenges to the provisional legislature, threatening uncertainty. Strains between the government-in-waiting need to be resolved. The management of elections to replace the controversial body and laws on subversion will also provide benchmarks for the new administration.

Faced with his daunting task, Mr Tung calls for trust. "I know many sceptics will not be turned into believers by my words. I urge them to have faith." But the real trust is required from Beijing. As Mr Chris Patten, the last British governor puts it: "This is an incredibly successful city, bloody well run with tremendous momentum. It isn't going to be screwed up, but it can go more or less well. And it will go more well if it is just left to tick over."



Work under way at Hong Kong's new airport on the island of Chek Lap Kok. Due to open next April, the airport is a replacement for Kai Tak. Last month a joint venture between Amec of the UK and two contractors – German contractor Heilit & Woerner Bau and China Fujian – won an £80m contract to build a second runway at the airport

INTERVIEW: LI LANQING • by Tony Walker, John Ridding and James Harding

A hands-off approach

Confident of a smooth transition, China's vice-premier says that there is no need to interfere in its long-lost territory

Vice-premier Li Lanqing has never visited Hong Kong, but on the eve of China's resumption of sovereignty he exudes confidence about a smooth transfer and preservation of the territory's role as gateway to China.

"When I was in the United Kingdom last year, I mentioned the important role played by Hong Kong as a bridge between China and the rest of the world because this role of Hong Kong as a bridge serves the interests of all of us," he says.

Chinese officials, in the last weeks before the July 1 handover, have been engaged in something of a "charm offensive", and Mr Li is no exception. He speaks optimistically about Hong Kong's future under mainland suzerainty, seeking to calm concerns about undue interference.

He acknowledges Hong Kong's continuing importance to China as a conduit for technology, capital and management skills and sees no reason why this role should diminish. His pledge of "non-interference" in Hong Kong's affairs is consistent with the message of other Chinese leaders.

"One of the most important factors contributing to Hong Kong's excellent economic growth is the efforts made by Hong Kong people themselves," he says. "It is, therefore, absolutely unecessary for the central government to interfere in the internal affairs of Hong Kong, except for foreign affairs and defence.

"I am looking after China's economic relations and trade with the rest of the world," Mr Li says. "However, I have never visited Hong Kong. It is my belief that we should not interfere with the affairs of Hong Kong."

These are undertakings which will be tested in the months ahead, but for the moment China's leaders appear committed to their notion of "non-interference" under the "one country, two systems" formula devised by Deng Xiaoping.

Mr Li's views carry weight. He is among the frontrunners to succeed Mr Li Peng as premier when the latter steps down next year. The 65-year-old English-speaking Mr Li became a member of the politburo in 1992 and a vice-premier in 1993, posts which put him close to the pinnacle of power in China.

In a wide-ranging interview conducted in Zhongnanhai, the leadership stronghold in central Beijing, Mr Li, spoke confidently about China's economy; commitment to state enterprise reform; hopes for early entry to the World Trade Organisation; the relevance of the Hong Kong takeover for China's aspirations towards Taiwan; concern about rampant speculation in Chinese companies listed on the Hong Kong stock exchange; and the relationship between Hong Kong and Shanghai after July 1. Among the main points he covered were:

● **Economy:** China's growth rate will drop this year below last year's 9.7 per cent and inflation will continue to moderate. Continued fiscal restraint has laid the foundation for the "sustained, rapid and healthy development of the economy."

● **Economic restructuring:** China needs to devote greater resources to developing agriculture and the services sector, while restructuring industry to meet the demands of the market.

● **Shanghai and Hong Kong:** The respective roles of Hong Kong and Shanghai will be enhanced by the Hong Kong takeover. The two complement each other and this mutually beneficial relationship will become more important. "One cannot be replaced by the other."

● **Taiwan:** China will show "greater flexibility" towards Taiwan after July 1, seeking to capitalise on the "one country, two systems" formula in Hong Kong. Success in Hong Kong will be critical to further progress with Taiwan.

● **Red chip mania:** China is considering additional measures to dampen rampant speculation in mainland-controlled companies listed in Hong Kong. China needs to apply "strict management... to curb the negative role they [red chip companies] play in terms of speculation and creating a bubble economy".

● **Most favoured nation trading status in the US:** China should be granted permanent MFN status in the US, removing the need for an annual argument with Congress over renewal which causes "a lot of negative impact on commercial relations between China and the United States".

● **The World Trade Organisation:** China has worked for 11 years to resume its membership of the General Agreement on Tariffs and Trade and its successor, the WTO. Beijing is willing to compromise to satisfy WTO entry requirements, but domestic circumstances place limits on room for manoeuvre.

"The positive attitude we've taken [towards the WTO] not only serves our interests but also the interests of the entire trading regime because we believe that world trade needs an overall unified framework and rules of the game everyone accepts. Otherwise, there will be a world trade war which would serve no-one's interests.

"In this sense, we hope to be a member of the WTO. While wanting to enjoy the benefits of WTO membership, we will also fulfil our obligations to the best of our ability according to the situation in China. Therefore, in this sense I believe China needs the WTO and the WTO needs China."

● **Enterprise reform:** Mr Li says this remains a big preoccupation of Chinese leaders seeking to manage a difficult transformation from a centrally-planned command-driven economy to a market-based system with "Chinese characteristics".

Employing the analogy of crossing a river from one bank – the old system – to the other bank – the new – he says: "I believe the majority of state-owned enterprises will be able to cross the river to reach the other bank, but some of them will get drowned in the process. That is a situation we would not wish to see, but I believe that is unavoidable."

Mr Li, in keeping with China's attempts to present a benign face to the outside world on the eve of the Hong Kong handover, called for a "new beginning" in relations with Britain. He also left no doubt about the importance China attaches to the Hong Kong handover as an historic watershed.

"The resumption of sovereignty is of great historic significance. It is of great importance for the entire Chinese people and people of Hong Kong... Now that we have reached the last minute before the handover I do not want to see anything which will affect negatively the smooth transfer," he says.

"We have every confidence in the future development of Hong Kong... We hope the new British government headed by Mr Blair will join us in observing these principles [regarding the transfer of sovereignty].

"In that case, Hong Kong will enjoy bright prospects which serves the interests of both of us."

Mr Li does not use "mutual benefit", the phrase favoured by Chinese officials, to describe Britain and China's joint interest in a smooth transfer. But his meaning is clear. Beijing hopes London will be supportive and will not resort to carping criticism from the sidelines after the handover.

■ **VIEWPOINT**

Amy Yip, who last year became the first local resident to take responsibility for what is one of the world's biggest treasure chests – US$66bn of foreign exchange reserves – sees a more global future for financial markets in Hong Kong.

"My generation was very, very lucky – our professional development coincided with the rapid growth of this region, and especially Hong Kong.

"Hong Kong was very much based on the western model. A lot of us were western-educated [Yip received her MBA from Harvard Business School] and brought that experience back here and merged it with the local background and culture. But with the next generation the degree of western influence may not be so big. The world now is so globalised, which is particularly evident in the financial markets. Now we are all part of the same global market, and that's going to be very much the theme for the next generation."

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PROFILE Martin Lee

Lee: 'We were promised one country, two systems, but the more I look at it, the more it is one system' Marcus Oleniuk

Quietly confrontational

The Democratic party leader and champion of Hong Kong's autonomy will find it tough maintaining his role in local politics

The lawyer in Martin Lee is immediately apparent. "If I am a martyr then I have a good cause. And if I have a good cause then I shouldn't be a martyr."

But behind this dry legal logic lies an effective politician. Mr Lee and his Democratic party have come out ahead in all of the elections they have contested, forming the largest group in the Hong Kong legislature that is set to be scrapped in two weeks. He may lack charisma, but the party leader has found fertile ground for his message of autonomy and improved welfare for Hong Kong.

Internationally, too, he has struck a chord. While his tour of the US earlier this year brought angry reactions from Beijing and criticism from Mr Tung Chee-hwa, the territory's post-colonial leader, it also focused Washington's attention on the transition. "Americans need a figure to focus on, and he was in the right place at the right time," says a western diplomat in Hong Kong, referring to a row over new laws on civil liberties which erupted during the tour.

Given this prominence, Mr Lee now stands as a benchmark for post-1997 politics. The role he and his party play will reveal how much scope has been given to pro-democracy forces and how the post-colonial political system has evolved. But in maintaining his position in Hong Kong politics, Mr Lee also faces great challenges.

For the short term, at least, he is not optimistic. "It is in the blood of every communist cadre to control everything he owns," he says. "We were promised one country, two systems, but the more I look at it, the more it is one system."

Mr Lee believes press and other feedoms of expression will be curbed, and the electoral rules for the first legislature – due to replace the controversial provisional body in the first half of next year – will be weighted against the democrats.

In the longer term, Mr Lee is less gloomy. "I cannot see the Chinese leaders, having got rid of communism, standing against the world tide towards democracy and the rule of law." In Hong Kong, the Basic Law promises a growing, if gradual, role for direct elections.

The problem for the Democrat leader is the period in between. The 19 party legislators, out of 60, will be booted from their seats next week for a spell in the political wilderness.

"They face a tough road ahead," says Professor Michael DeGolyer, head of the transition project at Baptist University. "If things go well in Hong Kong, their case is weakened. If things go badly, they can be blamed for boycotting the provisional legislature and for not helping the transition," he says citing surveys showing a majority favour the Democrats' participation in the post-handover legislature.

Absence from the provisional body presents Mr Lee with tough decisions. The Democrats must remain in public view. But confrontation could prove counter-productive.

"Hong Kong people will not take it well if the Democrats provoke a crackdown from China," says a member of the pro-business Liberal Party.

High-profile confrontation is not on the cards, says Mr Lee. "We haven't decided yet how we will mark the handover. But whatever it is, it isn't going to be violent at all. We don't believe in violence."

That is not his style. Mr Lee's appeal to Hong Kong's public has been rooted in his image of integrity. Mr Chris Patten, the governor, has referred to him as the lay saint. While tycoons such as Mr Henry Cheng at New World Development attack him for politicising Hong Kong and creating turbulence during the transition, few challenge his sincerity.

That image could be blurred by a shift away from centre stage. But it would be sharpened by mis-steps from the new administration or a heavy-handed approach from across the border.

John Ridding

ONE COUNTRY TWO SYSTEMS:

What does it mean for economic and financial management and the political and legal systems?

ECONOMY • by Peter Montagnon

Fine-tuning or a complete overhaul?

Despite pressure for increased intervention, Hong Kong's trade record strengthens the case for more 'positive non-intervention'

One of the myths surrounding the handover of Hong Kong is that it means placing the world's most laissez-faire capitalist system in the clutches of a totalitarian communist state.

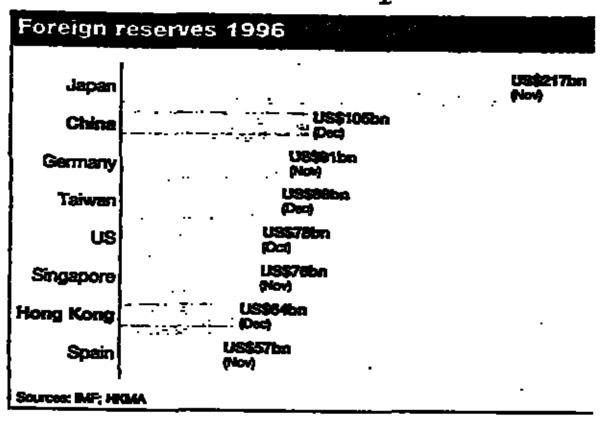
Such a line may provide fodder for tabloid headlines, but in economic terms it misses the mark in two important ways. First, whatever happens on the political front, Hong Kong's autonomy in economic mangement will be preserved. There is agreement on both sides of the border about that.

Second, while business in Hong Kong enjoys a great deal of freedom, the government has been ruthless in intervening in other areas, most notably housing, with the result that families pay only about 8 per cent of their income in rent. That is not exactly what most people mean by laissez-faire.

If the first point suggests continuity in economic management, the second suggests that Hong Kong's underlying philosophy, known as "positive non-intervention," is not just free market dogma. Though its style may differ from other countries in the region, its approach reflects a pragmatic alliance between government and business that is typically Asian.

Hong Kong has intervened heavily to create a climate in which business can thrive. This includes not only action to keep costs down, but also infrastructure provision. In the utility sector it has granted franchises to the private sector but has tolerated regulated monopolies. A low tax policy, with low government spending and minimal regulation has also favoured business.

Foreign reserves 1996



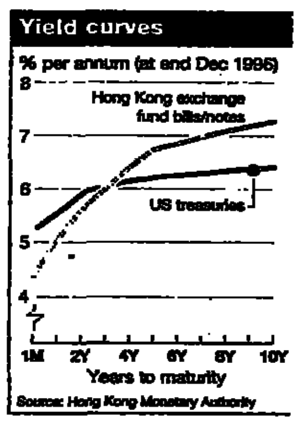
Sources: IMF; HKMA

From this perspective, the question raised by the handover is not so much whether China will interfere in Hong Kong's economy, but whether the balance will shift towards more intervention as a new class of Hong Kong Chinese businessmen consolidates its influence. The power of that lobby could grow, since Hong Kong will have in Mr Tung Chee-hwa a chief executive with a business background.

Some businessmen, such as Mr Raymond Ch'ien, newly-appointed chairman of Inchcape Pacific and a member of Mr Tung's Executive Council, have argued that Hong Kong needs a more activist industrial policy with greater emphasis on research and development to retain an edge for its manufacturing industries.

Through careful economic plannning, businessmen say, Singapore has retained a share of about 25 per cent for manufacturing in its economy, while Hong Kong has little manufacturing left. But a sign that this group has still not got the upper hand came in February when Mr Donald Tsang, widely expected to be dropped from the Tung administration, was reappointed as financial secretary.

Yield curves



Source: Hong Kong Monetary Authority

Mr Tsang admits interventionist pressures are increasing but is resolute in his oppostion. "Our political system would not lend itself to an adventurous industrial policy," he says. "I do not think there is community consensus in Hong Kong on this matter." Singapore has paid a price in higher taxes than Hong Kong. Its government-run pension fund gives it resources which Hong Kong does not possess.

Private sector economists argue that any shift in emphasis after the handover is likely to involve little more than fine-tuning, with additional emphasis on housing and technology. Nothing is likely to upset the main thrust of fiscal policy with low tax and low spending.

"It's too late for them to become like Singapore," says Mr Miron Mushkat of Lehman Brothers. "If they try to take that route, they'll probably get their fingers burned and they'll encounter resistance from within the civil service."

Besides, the current balance has brought Hong Kong to the handover in good economic shape. Real growth is officially forecast to rise to 5.5 per cent this year from 4.7 per cent last year, though inflation has been edging upwards. Merchandise exports, sluggish throughout last year, picked up strongly in March. Hong Kong enjoys a lower premium in international capital markets than Canada, says Mr Joseph Yam, head of the Hong Kong monetary authority.

"I do not look at July 1 as a watershed," says Mr Tsang. "Economically the whole idea of a smooth transition means that policy before July 1, which has worked successfully in this economy, will work after July 1."

PROFILE Joseph Yam, head of the territory's monetary authority

Yam: 'People want the money in their pocket to be worth a certain amount of international currency' Marcus Oleniuk

The currency's champion

Mr Yam has little time for critics of the US dollar peg

Hong Kong's currency peg, under which its dollar has been fixed at HK$7.80 to the US currency since 1983, would be one of the first of its institutions to come under fire in any shock to confidence after the handover. Responsible for its defence would then be Mr Joseph Yam, head of the territory's monetary authority.

Discreet, yet forceful and cogent in argument, Mr Yam appears the archetypal central banker, even if a private passion for horse-racing gives him a particular Hong Kong stamp. In the run-up to the handover he has become used to firing off the occasional pre-emptive salvo in defence of monetary arrangements which also have a particular local character.

The peg has not come under threat in the markets. But some have suggested the arrangement, vital to retaining confidence in the transition, will be less relevant after July as Hong Kong's economy becomes more closely integrated with that of the mainland.

Mr Yam finds such suggestions irritating. First, he says, an independent currency for Hong Kong is enshrined in the Sino-British agreements on the Basic Law for the territory. Second, the currency issue is covered six times by foreign exchange, making the peg impregnable. Third, there is popular support for a stable exchange rate.

It is sensible to make external currency stability an aim of monetary policy in such an outward-looking economy, he says. Hong Kong differs from other economies which define internal stability, exemplified in a low inflation rate, as their objective. "People want the money in their pocket to be worth a certain amount of international currency. That's what they want. Full stop," he says.

But there is a price. Hong Kong's interest rate policy is effectively determined by the US and does not reflect the local business cycle. That has led to higher inflation in the non-traded service sector of the local economy and restricted policy options for dealing with periodic overheating of the property market.

"That is a trade-off you have to make," Mr Yam says. "The response is not for us to change the objective of monetary policy but for us to be very careful about the implications of asset price inflation, for example on banking stability ... We need to be very careful about their exposure, and that is exactly what we are doing."

Hong Kong will need a separate currency as long as its economic development differs from that of China, he says, which has a heavily regulated economy, a fiscal deficit, and a non-convertible currency. "In our two circumstances you should be arguing in favour of monetary segregation rather than monetary union."

P.M.

PROFILE The Bank of China

Conquest not a priority

Rather than taking over HSBC group's dominant role, the bank wants to improve the quality of its business in the territory

Throughout the colonial period, Hong Kong's financial sector has been dominated by the HSBC group. Its Hongkong Bank subsidiary, the territory's largest, has played a role in economic and financial management, which sometimes even appeared greater than that of Whitehall's appointed governor.

But it would be rash to assume that a similar leadership baton will now pass to the Bank of China.

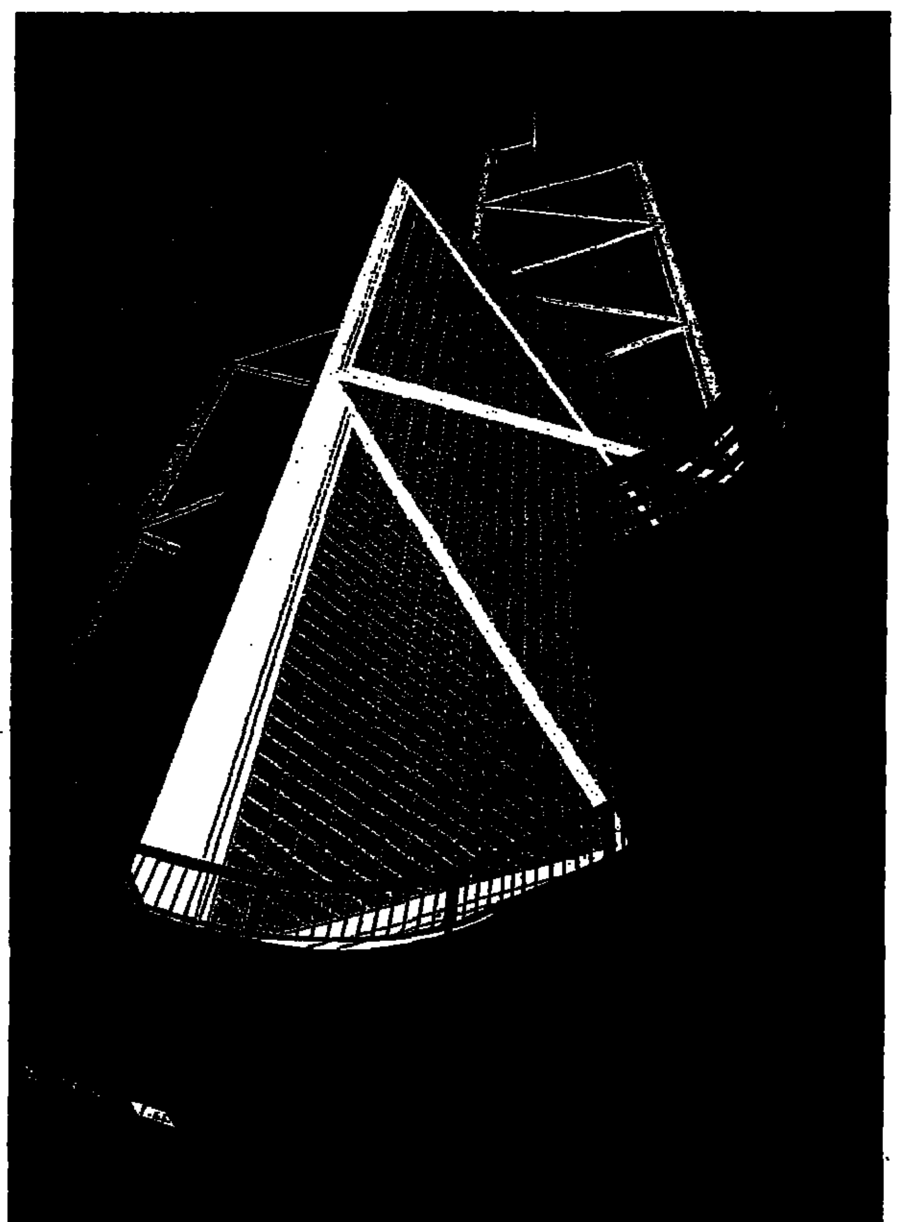
Not only are Hong Kong's markets more complex and competitive than in the days when the Hongkong Bank ruled the roost. Mr Wang Xuebing, the Beijing-based governor of the Bank of China, adopts an approach that reflects the official view that mainland companies must compete on a level playing field in Hong Kong.

While the Bank of China has become more prominent – with Mr Yang Zilin, its local head, assuming the rotating chairmanship of the Hong Kong Bankers Association for the first time last year – its aim is to become more professional. "We don't want to be number one in terms of quantity. We would like to see our business in Hong Kong become better quality," he says.

Hong Kong can help the group develop its use of information technology, a priority for its mainland business, but the profit contribution is also important. The group's activities in Hong Kong and Macao account for nearly 70 per cent of its total profits. "This is a very important source of income," he says.

In Hong Kong the bank wants to strengthen its retail business. The group accounts for about a quarter of local bank deposits. This is an important source of funding which it wants to exploit through new retail products.

Second, it plans a further push in the wholesale banking sector. The bank is only a middle-ranking player in capital market transactions and would like to work its way up towards the top of the league. To help achieve this, it plans to consolidate its investment banking activities in the territory, which are currently carried out separately. Fund management, retail securities, corporate finance and securities underwriting and syndication will be brought together.



Competing on a level playing field: the Bank of China headquarters, Hong Kong Marcus Oleniuk

Competitors say that Mr Wang's vision is in line with their impression of the Bank of China. Mr Vincent Cheng, an executive director of HSBC, describes it as a fair but firm competitor in the market for deposits and a professional partner in syndicated lending.

The transition to mainland rule should thus be smooth for the Bank of China. Mr Wang says he does not expect to be travelling to Hong Kong more frequently. The bank's reporting systems make that unnecessary.

Besides, he has to grapple with the much tougher task – neglected in the days when the Bank of China was simply a specialised foreign currency bank – of building a sophisticated, efficient and profitable business on the mainland.

P.M.

POLITICS • by John Ridding

Rupture risks credibility gap

The replacement of the legislature by a provisional body symbolises a polarisation in politics ahead of the transition

Two weeks from now, the "through train" sought for Hong Kong's political institutions will jump the tracks when the territory's legislature will be replaced by a provisional body, source of one of the most serious disputes of the transition.

That dispute has driven a wedge between the present and future administrations, and between the pro-democracy and pro-Beijing camps. The big question now is whether it proves to be just the most visible sign of a deeper division in post-colonial politics and a shift in the nature of government.

For pro-democracy critics, the fear is that the territory's new political institutions will be unable or unwilling to maintain the autonomy promised to Hong Kong. "The provisional legislature has no legitimacy. It was appointed by Beijing and will do what Beijing wants," says Ms Emily Lau, leader of the Frontier, a pro-democracy organisation.

She warns that political and social freedoms will be placed under tighter curbs after the handover and that the brakes will be put on democratic development. The democratic shoots which sprouted with the 1995 political reforms of governor Chris Patten will face a long winter, adds one Democratic Party legislator.

These charges are rejected by Mr Tung Chee-hwa and his colleagues in the Executive Council, the future leader's advisory cabinet. They point to a timetable for democratic development laid down in the Basic Law, Hong Kong's post-colonial constitution.

This provides for a growing number of directly-elected seats in the legislature and the gradual political reforms recommended for the territory.

But Mr Tung and his aides make no bones about their vision of a strong executive-led government nor their disdain for the "politicisation" of Hong Kong in recent years. As for freedoms of expression, they say, there is a need to strike a balance between human rights and order and stability.

It is a Singaporean-style image that receives strong support in the business community. "For the past 10 or 15 years we have been distracted by political disputes," says Mr Ronnie Chan, chairman of Hang Lung Development, one of the territory's big property concerns. "Now we will be able to focus on social and economic issues."

Many others in the business sector argue that as long as the economy delivers steady rises in living standards, the public will be little inclined to embroil themselves in politics. They point to opinion polls showing a majority expressing confidence in the transition as evidence that democrats' fears are misplaced.

There is also, says Mr Tung, the need to secure Beijing's trust. Hong Kong's autonomy will only be possible if China feels sufficiently confident that its newly-acquired capitalist territory will not provide a base for subversion or for extending democratic ideals on to the mainland.

These concerns are manifest in reforms under way. New laws drawn up last month strengthen police controls over demonstrations and tighten regulations over political funding. The main objective, according to Mr Tung's aides, is to prevent funds from abroad – particularly Taiwan – from influencing local politics. Anti-subversion laws are intended to curb criticism of mainland leaders, again with Beijing's wishes in mind.

On the local front, rules for the first legislature signal an uphill challenge for pro-democracy forces. The shift to a single-vote multiple-member constituency system, or a form of proportional representation, for the 20 directly-elected Legislature seats to be contested next year, is set to reduce the presence of the Democratic party.

"They will get the most votes," says Mr Allen Lee, head of the rival pro-business Liberal Party. But seats are what count.

While the signs point to a more compliant legislature, significant shifts are also taking place in the executive. Mr Tung has established task-forces to head the priority areas of housing and education. Headed by businessmen from the Executive Council, they mark the rise of a new corporate elite in government and raise questions about the traditional primacy of top civil servants.

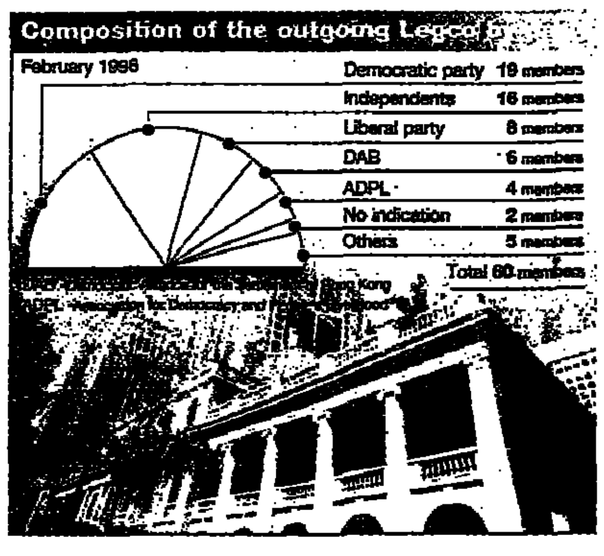
Many of these reforms have brought protests from Hong Kong and abroad. The Democrats have denounced the amendments to existing laws on political parties and demonstrations as an unnecessary challenge to civil liberties.

While Mr Tung's office and senior civil servants play down the notion of a shift towards a ministerial system, there is concern that morale in the civil service – the last remaining wagon on the political through train – could be undermined.

A more immediate risk lies in legal challenges to the provisional legislature. Even if Mr Tung's aides prove justified in their confidence that legal challenges will fail, the court battles will create uncertainty. It will also keep the spotlight on the legitimacy of the provisional legislature – selected by a 400-member Beijing-backed committee and with 10 of its 60 members drawn from the ranks of defeated candidates in the 1995 election.

Whatever the rulings from the courts, controversy over the provisional body is likely to last until the end of its tenure in 1998. The real test for Hong Kong politics and the degree of democracy it contains will then lie in the conduct of the vote for the next assembly.

The risk is that a protracted wait for the elections, or questions about its integrity, could create an emasculated legislature. And although the civil service remains respected and effective, and the Independent Commission Against Corruption appears strong, that could damage the credibility of the post-handover administration and undermine government transparency and accountability.



A man in a wheelchair burns a candle on June 4 in Hong Kong's Victoria Park to commemorate the anniversary of China's military crackdown in Tiananmen Square in 1989. Many wonder to what extent such demonstrations will be tolerated after the handover

The new line-up

The new Executive Council – the advisory cabinet for Mr Tung Chee-hwa – chief executive:

- Mrs Anson Chan: administrative secretary and head of the civil service, remains from previous administration.
- Mr Donald Tsang: financial secretary, remains from previous administration.
- Mrs Elsie Leung: secretary of justice
- Sir Chung Sze-yuen: convener of the Executive Council.
- Dr Raymond Ch'ien: managing director of Lam Soon, the consumer products group. From July, chairman of Inchcape Pacific. Present Exco member.
- Mr Chung Shui-ming: chief executive of the secretariat of the SAR Land Fund.
- Mrs Nellie Fong: deputy country managing partner, Arthur Andersen, China.
- Mr Charles Lee: lawyer and former chairman of Hong Kong Stock Exchange.
- Mr Antony Leung: managing director, Chase Manhattan, Hong Kong.
- Mr Leung Chun-ying: property surveyor and a vice-chairman of the Preparatory Committee, the Beijing-appointed body which is overseeing the handover.
- Mr Tam Yiu-chung: labour activist and former senior official pro-China branch of Hong Kong Federation of Trade Unions
- Mr Henry Tang: chairman, Hong Kong Federation of Industries.
- Hon Rosanna Wong Yick-ming: chairman of the Hong Kong Housing Authority. Member of present Exco.
- Sir Ti Liang-yang: former chief justice.

MAINLAND ORGANISATIONS IN HONG KONG • by John Ridding

Mainland institutions put down roots

There is a risk that China's organisations could emerge as sources of influence alongside the post-handover government

Two glistening towers have risen in the affluent mid-levels district of Hong Kong island. Once the builders have applied the finishing touches, hundreds of officials from China's ministry of foreign affairs will move into their new home.

The buildings are a tangible sign of China's official presence in the territory after July 1. Along with several thousand troops from the People's Liberation Army, and Xinhua, the state news agency which has also served as an embassy, they provide the symbols of the transfer of sovereignty.

But they also raise important questions. While Hong Kong's legislature and its law courts have been subjected to scrutiny, the role of the mainland organisations has been shrouded in uncertainty. That matters, because as organs of the Chinese state and of the Communist Party, they provide potentially influential local power bases.

Recent months have seen jostling for position between Xinhua, the ministry of foreign affairs and the Hong Kong and Macao affairs office, which was established in 1978 and which reports to the state council, or cabinet.

Mr Zhou Nan, the director of Xinhua's Hong Kong branch and the territory's ranking party official, has said he will retire after the handover. But his number two, Mr Zhang Junsheng says that the organisation will continue to play a crucial role and that the new director will retain the rank of minister in the mainland government.

That remains to be seen. But this month's appointment of Mr Ma Yuzhen as head of the foreign ministry's new Hong Kong office provides another formidable operator. A former ambassador to Britain, Mr Ma is seen as an affable and skilful diplomat. "Fundamentally tough, but engaging", was how one western counterpart described him.

Other powerful mainland figures will include General Liu Zhenwu, commander of the PLA garrison, and his political commissar. Add to that the local representatives of mainland businesses and state enterprises, and there exists an influential web of Chinese officials.

One risk is that jostling for position between the arrivistes could shake local political institutions. A bigger risk, say political analysts, is that the mainland institutions – and particularly the party – will emerge as alternative power structures to the post-handover government.

"In China, the party is always pre-eminent," says one European diplomat. "Under 'one country, two systems' that is clearly not meant to be the case. But we have yet to see how the Chinese institutions will operate in Hong Kong."

For Ms Christine Loh, the independent legislator, the main problem is uncertainty. But there is ample cause for concern. "If the party operates as it does in China it would be as disastrous for Hong Kong as the introduction of a full-blown communist economic system."

Compared with the mainland, the party network is limited. "It does not reach down to the grass roots as it does in China," says Professor Lau Siu-kai, a member of the Beijing-appointed preparatory committee which is overseeing the handover. But it has an established base in the Xinhua headquarters, and several of Mr Tung's advisers are believed to be party members.

Mainland officials dismiss fears about rival powers, as does Mr Tung. He says he has no problem with the operation of the Communist Party in Hong Kong, an open secret for decades. The future leader points to the autonomy promised to the territory by the accords governing the handover, and also to the contacts he has built on the mainland.

Although he will not comment on his ranking in the mainland hierarchy, when necessary, he says, he can pick up the phone and get through to Beijing at the highest levels.

Much, though, will depend on Mr Tung's skill in steering Hong Kong through the transition to China's satisfaction. Any problems may prompt Beijing's nervous leaders to dial a different number in Hong Kong.

VIEWPOINT

Peter Fook, a watchman, has been firing the noonday gun for the Jardine group – a 150-year-old-tradition – for 15 years. Fittingly, for both a Jardine's man and an icon of Hong Kong, he boasts some Scottish blood. Mr Fook will fire the cannon on both June 30 and July 1 and sees scant difference, bar an enlarged huddle of tourists.

"I see a good future and peaceful transition. Hong Kong has been on track during the handover period, so I don't think it will be a mess. And I don't expect there to be any difference because the Chinese government has promised prosperity and confidence for Hong Kong residents.

"The Chinese government now is far and away different from that in the past, more productive than, say, in the days of the Qing Dynasty."

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THE LEGAL SYSTEM • by Peter Montagnon

Legal eagles remain wary

The profession is watching closely to make sure that the rule of law is maintained

Ms Elsie Leung, secretary of justice-designate in the new Hong Kong government, is a patient and gentle woman. Surrounded by orchids in her office above Hong Kong's central park, it is difficult to imagine her as the agent of a capricious and lawless government.

With startling determination, she affirms that she would not hesitate to prosecute Mr Tung Chee-hwa, Hong Kong's chief executive, if he should seek to interfere with the appointment of judges.

Yet, as the handover approaches, Hong Kong's legal profession expresses growing concern, not so much about Ms Leung's mainland connections – she is a member of the National People's Congress (NPC), although she says she intends to resign – but more that the law will become twisted to achieve political ends.

"Does Mr Tung understand the rule of law?" says Ms Margaret Ng, who represents the legal profession on the colonial Legislative Council. "Does he consider the legal propriety of what he does? Or does he say: 'this is the policy. Please find a way to make it legal.'? That increasingly seems to be the approach."

For businessmen, who still see little reason to presume that the application of law to commercial matters will be less transparent than before, such questions may seem arcane. The concerns of lawyers such as Ms Ng relate to the way the law is applied in matters of civil and political freedom – something business usually chooses to ignore.

And while the rule of law may be fine in theory, as Mr Jim Rohwer, the author and commentator on Asian affairs, points out, in practice most people would already think twice before suing a local tycoon. In that sense not much will change after July.

Whether business will stay on the sidelines remains to be seen. But in any case, the early days of the new government are likely to be marked by controversy over the legitimacy of new legislation.

The outcome of these disputes will do much to determine whether the handover is deemed a success by the rest of the world – something that will help shape the territory's economic prospects.

At the heart of the controversy are the decisions by the NPC to strike down certain laws enhancing civil liberties, passed since 1992, and to appoint a provisional Legislative Council to replace the body elected under governor Chris Patten's electoral reforms.

Ms Audrey Eu, chairman of the Bar Association, argues that the civil liberties laws were not in contravention of the Basic Law, Hong Kong's post-July constitution, so there was no reason for the NPC to strike them down.

In contrast, the creation of a provisional Legislative Council contravenes the Basic Law because it stipulates that Hong Kong should have an elected legislature, whereas the Provisional Council was appointed.

"We are talking about a very important point of principle," she says. The relationship of the NPC to the Basic Law, she says, is "fundamental".

Ms Leung takes a different view. She says the creation of the Provisional Legislature was justified both by the Chinese constitution and by the English common law doctrine of necessity: since China argues that the Patten reforms were in breach of the Basic Law and that the legislature created by them had no authority, and since elections could not be held before the handover, it was necessary to have a council that could fill the breach. There was no choice other than to appoint one.

Underlying these different opinions is the issue of how far the NPC should go in its interpretation of the Basic Law.

In most areas it has delegated its right to do so to the Hong Kong courts, but so-called "acts of state" are an exception and they are loosely defined.

This makes Hong Kong's lawyers uneasy. UK common law, under which they were trained, says that the courts, rather than the legislature, should interpret the law.

Thus, at one level, the controversy reflects the difficulty of the legal profession in adjusting to a new situation where English common law has to be woven into China's tradition.

Gradually the legal profession could adapt to that new reality, but there is always a suspicion that something more sinister will emerge.

One encouraging development was the appointment last month of Mr Andrew Li, a respected barrister, as the new chief justice, a move which was welcomed even by the normally sceptical governor Chris Patten, but Ms Ng still believes that the legal profession must be vigilant.

"We are going to have to watch very carefully and speak out at every turn," she says.

"The first six months after the handover are going to be a crucial test period."

Leung: the future justice secretary says she would not hesitate to prosecute Tung Chee-hwa, Hong Kong's chief executive

Marcus Oleniuk

VIEWPOINT

Mr Yeung Yiu-chung is principal of Heung To Middle School, one of Hong Kong's five "patriotic" or pro-China schools where the day begins with rousing motherland hymns. For the pupils that pass through his classes, he foresees a more accurate education and brighter future.

"I'm very optimistic because I think that the SAR government can govern Hong Kong efficiently and effectively in the future – plus, China will potentially be an important economic power in the next decade.

"I think this young generation will have a better time because they have better opportunities – for example to get promoted to senior posts in the government. In the past that was just for British people, but now many Chinese people can have that opportunity, even to the extent of being chief executive. So students after 1997 will have a better chance."

1840-1842 China cedes Hong Kong to Britain in Opium War.

1842 **August 29:** Treaty of Nanking recognises and confirms British occupation of Hong Kong.

1843 June 26 **June 26:** Hong Kong is proclaimed Crown Colony and Sir Henry Pottinger becomes its first governor.

1856-1858 The second Anglo-Chinese Opium War.

1860 Convention of Peking cedes Kowloon peninsula adjacent to Hong Kong island to Britain.

1898 China leases rural New Territories area and 235 outlying islands to Britain for 99 years.

1911 Revolution overthrows China's imperial Qing Dynasty.

1941-1945 Japanese military occupation of Hong Kong.

1949 Mao Zedong proclaims the People's Republic of China.

1972 Britain and China establish diplomatic relations.

1975 Vietnamese refugees arrive in Hong Kong as Vietnam war ends.

1979 **March:** Chinese leader Deng Xiaoping receives Hong Kong governor Sir Murray McLehose in Beijing and, for the first time, discusses end of the New Territories' lease. Recently, debate has emerged over who raised the issue.

1982 **September:** British prime minister Margaret Thatcher visits Beijing. Deng refuses request for continued British administration of Hong Kong after 1997, but he agrees to open negotiations on handover.

1983 Britain and China begin negotiations on Hong Kong's future.

1984 **December 19:** Thatcher and China's premier Zhao Ziyang sign Joint Declaration in Beijing, requiring Britain to transfer sovereignty of the colony to China at midnight on June 30, 1997. China pledges to grant Hong Kong a 'high degree of autonomy' and retain capitalist system for 50 years.

1989 China's leadership orders a military crackdown on pro-democracy protests in Beijing. In Hong Kong, more than 1m people join protests against the crackdown. The events mark a

THE CHALLENGE FOR CHINA:

China's politics, US relations, foreign policy and the Taiwan issue are affected by the handover

CHINESE POLITICS • by Tony Walker

Powerful tool in a post-Deng world

A leadership intent on establishing its own legitimacy may see promoting national pride about Hong Kong as politically useful

The memory of the late Deng Xiaoping, China's paramount leader, like that of Banquo's ghost, will hang over celebrations marking Hong Kong's return to mainland control. His political heirs hardly need reminding of his legacy.

Mr Deng, who died in February, did not in the end fulfil his ambition of being present in Hong Kong for the handover. Death robbed him of that satisfaction, but China's post-Deng leadership will be mindful of his role in shaping Hong Kong's transition to Chinese rule.

And therein lies an important connection between China's resumption of sovereignty over Hong Kong and politics on the mainland. Mr Deng's successors, anxious to consolidate their authority, will want to make clear they are fulfilling his wishes to the letter.

On China's busy political calendar for 1997, the Hong Kong handover ranks in importance just below that of the 15th Communist Party Congress, due to take place in the autumn. The two events are closely linked.

China's leadership, spearheaded by President Jiang Zemin, will want to show that it is capable of overseeing a relatively smooth transition, aware that a bumpy ride would reflect negatively on its competence.

As a result, little is being left to chance, although serious demonstrations in Hong Kong and an over-reaction by the police could yet mar the occasion.

Mr Jiang and his colleagues know that not only will the world scrutinise the transition, but also mainland eyes will be fixed on Hong Kong for the weeks that lie ahead. If events proceed smoothly, the leadership will increase its political credibility in the eyes of locals.

China's rulers will also be conscious that resumption of sovereignty over Hong Kong under the "one country, two systems" formula will have far-reaching implications for China itself.

Mr Deng, with his genius for fashioning creative solutions to knotty political problems, dealt cleverly with the issue of how to graft capitalist Hong Kong on to nominally socialist China.

But risks remain for Beijing in its embrace of what may prove to be a bothersome child.

Hong Kong, with its relatively free-wheeling system compared with China, is an example to 1.2bn Chinese of how their own system may evolve. Hong Kong may become a beacon for a speedier political transformation on the mainland than China's leaders believe is desirable.

Beijing – which will be highly sensitive to the use of Hong Kong by pro-democracy activists, or those representing special interest groups such as the Tibetan lobby – seems certain to have its patience tested.

But for now, China's propaganda machine is focusing the nation's attention on Hong Kong's "return to the motherland", thereby investing the event with sacred purpose.

President Jiang, anxious to secure his position, hopes to bask in the reflected political glory of putting behind China the "unequal treaties" under which Hong Kong was mandated to Britain by the weakened Manchus.

Propagandists are not stinting in their efforts to remind the populace of the event's historical significance, and, by implication, Mr Jiang's role.

Chinese leaders have not made a habit of courting public opinion, but swelling national pride over Hong Kong may be regarded as useful by a post-Deng leadership intent on establishing its own legitimacy.

In this respect, the Hong Kong handover timing is fortuitous for Mr Jiang as it provides window-dressing for what seem likely to be robust political discussions in July and August in preparation for the party congress.

In August, China's leadership retreats to Beidaihe, the summer resort east of Beijing, to debate political events. Its deliberations this year about personnel changes and policy will be sharpened by the knowledge that the forthcoming congress will put the seal on the new post-Deng era.

Mr Jiang, fresh from presiding over the handover, will hope that a successful transition gives him the impetus to put his stamp on leadership and policy for the next five years. Like a politician running for office in the west, he will use Hong Kong as a political tool.

Importantly, he will be able to point to Hong Kong as proof that the new team is assiduously implementing Mr Deng's legacy. The resumption of sovereignty over Hong Kong is one of the items on the checklist of "great tasks" in Mr Deng's blueprint for China towards 2000 announced in 1980.

Beijing is certain to invoke Mr Deng frequently in the weeks ahead and while the deceased patriarch may be physically absent from the handover, his name will not be far from the lips of those who are seeking to assume his mantle.

China's president Jiang Zemin: a smooth handover could give him the impetus to put his stamp on leadership for the next five years *Reuter*

China moves forward: a young Beijinger and his father admire a piece of contemporary sculpture of traditional dancers in a park. The mainland's handling of Hong Kong's transition will influence its relations with the rest of the world as it moves into the 21st century *Reuter*

THE VIEW FROM WASHINGTON • by Bruce Clark

Terms of engagement

The territory's return to the mainland presents a test of US policy in China and beyond

Within minutes of being confirmed as US secretary of state last February, Mrs Madeleine Albright made her first official telephone call. It was to Mr Malcolm Rifkind, then UK foreign secretary, and her main purpose was to underline US interest in the future of Hong Kong.

This gesture, combined with Mrs Albright's decision to attend the ceremonies marking the handover of Hong Kong to Chinese rule, brings home the way that Washington has steadily taken over from London the role of main advocate for western concerns – whether they be humanitarian or economic – in the territory.

In order to justify their growing preoccupation with Hong Kong, US officials have learned to reel off an impressive list of statistics.

Mr Sandy Berger, the national security adviser, recently described the territory as "the capital of American business in the fastest-growing part of the world", where some 1,100 US firms were running successful operations.

It was also one of the few places in Asia where the US enjoyed a trade surplus – of about $4bn last year – and the territory provided port facilities for more than 80 visits a year by the US navy, said Mr Berger.

Clinton: the credibility of his China policy is at stake

He might have added that about 36,000 of his compatriots live in Hong Kong, and US investment – which is worth some $14bn – accounted for a quarter of the territory's manufacturing output.

But there are even more fundamental reasons why US administration will be watching China's policy in Hong Kong with an eagle eye. The credibility of President Bill Clinton's stance in one of the most sensitive areas of foreign policy is at stake.

If events in Hong Kong take a nasty turn, that will soon take its place alongside issues such as Tibet, the treatment of religious believers, prison labour and the fate of political dissidents among the arguments that are cited by Congressional sceptics who regard President Bill Clinton being too soft on China.

The administration found itself wrong-footed in April this year when Mr Martin Lee, the leading pro-democracy politician, received an enthusiastic reception on Capitol Hill – which seemed to browbeat the White House into offering him its own, somewhat tardy invitation.

But in one respect, the Hong Kong issue has been a blessing for the administration's China policy. Both Mr Lee, the outgoing British administration and almost everybody else in the territory have concurred in urging the US Congress to swallow its doubts and renew China's "most favoured nation" trading status.

Mr Newt Gingrich, the speaker of the House of Representatives, was one influential Republican who at one point suggested that MFN be renewed for less than a year – but later swiftly reverted to support for the administration's call for an extension of a full year.

Mr Gingrich said that there would be something odd about being more pro-Hong Kong than the territory's own people.

Senator William Roth is another respected commentator on foreign affairs who has taken his cue from Mr Lee and the colonial authorities as he lays out his grounds for supporting the status quo in trade relations. "It is not in our interest, nor in the interest of the Chinese people, and certainly not in the interest of Hong Kong – for which there is great concern among the American people – to revoke MFN," he said recently.

"We all deplore many of the practices of China, but I am of the firm conviction that the best chance we have of influencing them, and helping them bring about the rule of law is through engagement," Mr Roth added.

This argument – that Beijing is bound to change through deepening involvement with the outside world – has been put forward in even stronger terms by the administration.

A senior White House official puts the case for engagement with China as follows: "The only argument they [the sceptics] can make is that the Chinese are so clever, they are simply constructing relations with us in order to build themsleves up economically and become really dangerous.

"But even if you set out to play that game, you would lose . . . because by the very process of engagement, they will transform themselves. They will forget the nefarious motive that started them down that path."

These are bold predictions, which coincide perfectly with the support for "market democracy" that informs US policy in regions ranging from Latin America to central Europe.

The administration, while acknowledging the difficulty of making any long-term predictions about China, has defended its policy by saying that engagement is already bearing fruit, in areas ranging from environmental policy to arms proliferation.

Beijing, it is argued, has acknowledged that there are good reasons to avoid trading in military technology with pariah states such as Iran – and has shown some degree of restraint.

Despite the disbelieving guffaws of sceptics in Congress, the State Department has reacted to arms proliferation by imposing heavy penalties on specific individuals and firms in China and Hong Kong – while absolving the Beijing government of any direct responsibility.

But this has been a difficult line for the administation to sustain. Its senior officials acknowledge that they are worried by Chinese deliveries to Iran of precursors for the manufacture of chemical weapons, as well as powerful conventional weapons such as anti-ship missiles.

If Beijing cracks down hard on dissent in Hong Kong, arguments about the civilising effect of engagement and capitalist development could suffer a mortal blow – both on Capitol Hill and far beyond.

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December 19 1984: Signing of joint declaration
Chris Patten
Tung Chee-hwa

turning point in Sino-British relations.

1990
China promulgates the Basic Law, Hong Kong's post-1997 constitution.

1992
Chris Patten, former party chairman of Britain's ruling Conservative Party, becomes governor of Hong Kong. Patten launches electoral reforms which are denounced by China. Relations between the two countries deteriorate.

1993
China sets up a Preliminary Working Committee (PWC) to help shape Hong Kong's first post-1997 administration.

1995
September: Hong Kong holds its most representative legislative elections to date under the auspices of Patten's reforms. Democrats take the majority of the direct vote.

1996
China sets up the Preparatory Committee, replacing the PWC, to oversee Hong Kong's transition in line with the Basic Law and decisions of China's parliament.

1996
March: British prime minister John Major visits and says 'Hong Kong will never walk alone'. Pledges Britain will fight for 1984 treaty to be respected by China.

1996
December: A 400-member selection committee chooses Tung Chee-hwa, the shipping tycoon, as chief executive (post colonial leader).

1997
January: Provisional Legislature holds first meeting in Shenzhen, China, to avoid legal challenge from Hong Kong Democrats who argue that its activities are unconstitutional.

1997
February 19: Hong Kong shrugs off death of Chinese leader Deng Xiaoping with barely a ripple and markets remain unaffected.

1997
March 12: Hong Kong unveils first annual budget drawn up with China for year of handover, with no major changes to traditional cautious fiscal policies.

1997
April 11: Britain closes HMS Tamar Naval Base on Stonecutter's Island as the withdrawal gathers pace.

1997
April 21: 40-strong advance PLA guard are first Chinese troops to enter Hong Kong in preparation for handover.

CHINESE FOREIGN POLICY • by Tony Walker

Litmus test for foreign relations

While the transition clears up a big piece of China's unfinished business, success or failure will influence how the world sees it

The restless quest by the Chinese leadership to establish what it sees as its international prerogatives will take a big step forward with its resumption of sovereignty over Hong Kong.

For China, the return of the territory to mainland control clears up a crucial piece of unfinished business, but at the same time the transition will leave exposed more starkly the continued impasse over Taiwan.

Beijing seems certain to turn its attention to Taiwan after July 1. China understands that a smooth transition and aftermath in Hong Kong is critical to its attempts to counter Taiwan's drift away from its embrace. But it also faces a string of other complex issues in its efforts to stabilise its foreign policy, not least in its fractious relationship with the US which is buffeted by arguments over questions ranging from human rights and trade to arms proliferation.

Beijing believes that an improving relationship with the US is central to its foreign policy aims of securing a stable and non-threatening international environment that will allow it to concentrate on economic reforms.

Mr Qian Qichen, China's foreign minister, expressed this in an address earlier this year to the Council on Foreign Relations in New York when he said of the Sino-US relationship: "We share a common responsibility in maintaining peace and stability in both Asia-Pacific and rest of the world.

"We also share important responsibility in promoting global economic prosperity... The need for both countries to stay engaged with each other is increasing, not decreasing... We should firmly bear these common interests in mind and step up co-operation."

China regards as self-evident the need for what officials describe as the "largest developing country" and "largest developed country" to draw closer together, and, therefore, finds it perplexing that domestic pressures in the US appear to be driving the two apart.

Beijing knows its resumption of sovereignty over Hong Kong will be seen by the world as a litmus test of its good faith in upholding agreements over Hong Kong's "separateness" from China under the "one country, two systems" formula.

But the jury is out on whether it will refrain from interfering in the territory's affairs to the detriment of Hong Kong and its people. China's behaviour will be closely scrutised in the coming months. Its performance will have a direct impact on its standing internationally and, more to the point, on its relations with countries such as the US and Britain.

Chinese officials have expressed hope that the change of government in the UK will allow Britain and China to put behind them disagreements about the transition to mainland control, especially acrimony over governor Chris Patten's democratic reforms.

But British prime minister Tony Blair's ability to promote such a partnership will largely be determined by China's behaviour towards Hong Kong. Undue interference will make it harder for the Labour government to accommodate Beijing.

China's official media has commented approvingly on the statement by Mr Blair on the eve of the election that Hong Kong should become a "bridge, not block, between Britain and China". But Mr Blair needs to tread carefully. Critics in Britain and Hong Kong will pounce at any sign of the government putting expediency above principle.

As Mr Martin Lee, leader of Hong Kong's Democratic Party and a critic of Beijing, said in a recent newspaper column: "We in Hong Kong note Mr Blair's post-election commitment to 'noble causes, duty and decency'. There cannot be a more noble cause, a greater duty, or a more decent thing than to preserve the freedoms of Hong Kong's 6.5m people."

But China's officials want to reassure doubters that China will live up to its commitments. Mr Qian, in his Council on Foreign Relations speech, said: "The success in implementing the principle of 'one country, two systems' will ensure Hong Kong's stability and prosperity. It is not only in the interests of Hong Kong and China, but also the interests of other countries and regions, including the US, that have extensive economic and trade links with Hong Kong."

China's foreign minister did not mention Taiwan in his New York speech, but there is no doubt that cross-strait relations loom large in Beijing's calculations. China's 15th Communist Party Congress, due to take place in the autumn, will require the leadership to provide an accounting of progress towards reunification.

President Jiang Zemin may use the occasion to hint at fresh initiatives to end a lengthy hiatus in cross-strait contacts. Informal talks aimed at generating momentum towards serious negotiations collapsed after the visit to the US in 1995 of Taiwan's president Lee Teng-hui.

A furious Beijing sought to intimidate Taiwan by launching missiles into waters near its main ports. China's action prompted the US to station two carrier task forces in the region, resulting in a serious cooling of Sino-US relations.

Beijing and Washington have "quarantined" the Taiwan issue for the time being, but it remains a potent threat to the relationship and to regional stability. Its handling requires continuing sensitivity and restraint on all sides.

China's management of Hong Kong will colour perceptions about its good faith on issues ranging from Taiwan to its intentions in the South China Sea, the focus of territorial disputes with many of its neighbours, including Vietnam. Hong Kong's return to China's control marks a watershed in Chinese foreign policy. Beijing's ability to make the best – or worst – of the transition is in its own hands.


Qian Qichen, China's veteran foreign minister speaks of a 'common responsibility' with the US in maintaining peace and stability Reuter

■ **VIEWPOINT**

Tsai Ming-hsien, is a legislator from the Democratic Progressive Party, Taiwan's leading opposition party.

"Relations between Taiwan and Hong Kong are close. Nearly one third of Taiwan's exports go through Hong Kong and on to China and south-east Asia.

"But after July 1, we don't know what will happen. Trade relations will probably continue as usual, I hope.

"We are very concerned about future political relations between Taiwan and Hong Kong. Hong Kong will be part of China so we will have to wait and see. We still do not know what the status of Taiwan's governmental and semi-official organisations in Hong Kong. This is uncertain.

"We hope the PRC and Taiwan will develop an equal and reciprocal partnership with mutual respect of sovereignty. If the PRC treats us with respect, we would wish to be like brother and sister.

"Taiwan is Taiwan and China is China and we should respect each other. There is one China and one Taiwan. Our position is very clear and we have made our position clear to China and to the rest of the world.

"We expect China will step up pressure on Taiwan in 1998. We can't accept the 'one country, two systems' formula. How can we believe China would maintain one China, two systems? Already they have intervened in the economy and the political system of Hong Kong. Do you believe China could maintain the same system for 50 years? We are suspicious."

THE VIEW FROM TAIWAN • by Laura Tyson

Concern from across the strait

Taipei's leaders fear that Beijing will use the island's strong trade links with Hong Kong to force them to make political concessions

Nowhere will Hong Kong's handover be watched more closely than in Taipei. The "one country, two systems" formula to be applied to Hong Kong was forged with Taiwan in mind, and quite apart from the overarching politics of reunification, the return of Hong Kong prompts thorny issues of trade and economics across the Taiwan Strait.

While few doubt that Taiwan's strong economic links with Hong Kong will continue to flourish, concerns are growing that Beijing may attempt to use that vital lifeline as leverage with which to force Taiwan to make political concessions.

These concerns have been heightened by a protracted standoff at the negotiating table. Beijing has refused to return to talks since dialogue was broken off in June 1995.

The immediate cause was a private visit by President Lee Teng-hui to the US. The broader problem is Beijing's belief that the Taiwanese leader is forging a policy towards independence.

Faced with this diplomatic impasse, Taiwan is anxious that its ties with Hong Kong do not become ensnared in cross-strait manoeuvres.

"We would like to see minimal changes to the current relationship after July," said Mr Lin Chung-pin, vice-chairman of Taiwan's cabinet-level mainland affairs council, which formulates China policy.

"We want to maintain a low profile in Hong Kong and we will be pragmatic and flexible."

Mr Qian Qichen, China's foreign minister, has given assurances that Taipei's ties with Hong Kong – including its quasi-official representative offices – can remain in place as long as they do not engage in activities inconsistent with their designated status.

But details remain fuzzy. Taipei's most important agency in Hong Kong, the Chung Hwa Travel Agency, which functions as a consulate offering visa services, is tacitly permitted to operate by the UK authorities but is not officially registered in Hong Kong.

A vital agreement on shipping was reached at the end of last month allowing the continued passage of trade through Hong Kong. However, the accord was described as temporary, pending final agreements on the flagging of vessels.

Apart from the uncertainty about technical matters, Taiwan is concerned about the longer-term implications of Hong Kong's handover. The conventional wisdom is that once Hong Kong is well in hand, Beijing will train its attention on the island that it views as a renegade province and will step up pressure for its eventual reunification with the mainland.

Mr Andrew Yang, secretary general of the Chinese Council of Advanced Policy Studies, predicts that China in early 1998 will launch a "peaceful reunification" propaganda campaign in tandem with "drastic political manoeuvres" to force Taiwan into making concessions.

"Beijing will push its one country, two systems formula on Taiwan and the international community," Mr Yang says.

Few expect Beijing to revert to staging missile tests and military exercises near Taiwan as it did during Taiwan's first democratic presidential elections in March last year.

The percentage of the population which supports outright independence for the country, although small, is growing and rises each time Beijing steps up pressure on Taiwan.

Mr Lin believes that Beijing is waging a "smokeless war" against Taiwan. "They are now using economic and other non-military instruments to achieve a psychological effect. They will try to make our people think Taiwan is losing and time is on China's side," he says.

Domestic debate over whether Taiwan should further open the door to China will inevitably intensify, although a February public opinion survey showed that a solid 47.6 per cent of respondents thought the current pace of cross-strait relations was "just right", and just 13.4 per cent thought the pace "too slow".

Another poll showed that an overwhelming 80 per cent of respondents supported maintaining the status quo, while 8.7 per cent supported immediate independence and 5 per cent advocated immediate reunification.

"Some people say that if Hong Kong is successful, then this can provide some sort of role model for Taiwan," says Ms Chung Chin, a specialist in cross-strait relations at the Chung Hua Institution for Economic Research.

"But that does not necessarily mean we want to reunify with China. The international trend is toward economic integration but political independence," he says.

Taipei insists the one country, two systems formula is not applicable. "Unlike Taiwan, Hong Kong and Macao are colonies. They do not have armies, foreign embassies or sovereignty, all of which we have. Our people resent that way of thinking," says Mr Lin.

Beijing is also trying to emulate in Taiwan the method which it employed to great effect in Hong Kong – enlisting the business community to promote its cause. In Chinese this tactic is called "yi shang bi guan" – or "use business to force politics".

This strategy may prove less effective in Taiwan, where business has less influence. Nevertheless, Taiwan's corporate community will continue to press the government to expand economic ties with China, in part because of the deteriorating investment climate in Taiwan itself.

Taipei restricts investment in China and tries to discourage high-profile investments, but many companies skirt the curbs. Formosa Plastics has openly challenged the government with its planned US$3bn power plant project in Fujian province.

"The government wants to keep control over businesses investing in China, but whether this policy can be maintained is a serious question," says Mr Lu Ya-li, a politics expert. "Sooner or later the government is going to clash with business."

Future development of cross-strait relations

Sources: National Chengchi University; Burke Marketing Research; China Credit Information Service; National Sun Yat-sen University

ECONOMIC INTERDEPENDENCE:

The return to mainland control affects areas such as financial markets, investment and trade

FINANCIAL FLOWS • by Louise Lucas

Cross-border cash point

Hong Kong's role as a financial centre for China will be strengthened after the handover

Only four years ago zealous mainland border officials impounded the financial details of a state-owned brewery that was selected as the country's pioneering overseas listing. According to those involved, they accused their accountants of trying to abscond with state secrets.

Today these "state secrets" pour unheeded across the border.

Cash moves in the opposite direction. About US$5bn has been raised in primary offerings by former state-owned enterprises and an estimated further US$3bn by red chips, or mainland-backed companies.

China started capitalising on Hong Kong as a fund raising platform in 1993, with the pioneering H share issue of Tsingtao Brewery. Tsingtao raised about HK$889m – and the Hong Kong initial public offering was 110 times oversubscribed.

Since then 29 H shares – Hong Kong listed, former state owned enterprises – have been floated and as many are in the pipeline. The red chips have also been flourishing.

Bankers say the handover will only cement the financial ties that bind country and special administrative region.

"The future of Hong Kong's capital markets is China. For Hong Kong to become a larger stock market than London – which it will be in 25 years – will require the flotation of Chinese assets," says Mr Philip Tose, chairman of Peregrine Investments.

The government is equally confident that the key to Hong Kong's continuing fortunes lies north of the border. Mr Rafael Hui, secretary for financial services, says that within a decade Hong Kong will be an even more sophisticated financial centre, thanks to a combination of capital and liquidity from China.

Mainland companies have until recently had a patchy time on the Hong Kong market – partly a reflection of the mainland's credit squeeze and also due to perceived management problems in the individual companies. But with the handover looming, investor enthusiasm is starting to tip off the scale.

Not surprisingly, issuers are eager to tap this demand. Bankers report a large number of companies jostling to come to market while the territory is still under British rule.

Ironically there is a belief that their passage to capitalism will be smoother now, while it entails two sovereigns rather than one.

The most prominent trend recently has been for municipalities to list "window" companies, such as the capital's Beijing Enterprises. "The west privatised industries, China is privatising cities," says Mr Tose, who claims that Peregrine invented red chips with the market creation of Citic Pacific, Beijing's flagship investment vehicle.

Bankers do not expect China's short march to capitalism to falter. "I don't see the process slowing down because it is too important a tool for the Chinese as far as getting foreign investment and foreign money into China," says Mr Louis Koo, head of corporate finance (Hong Kong and China) at ABN Amro Hoare Govett.

"Although on the one hand they are saying assets are being sold cheaply to foreign investors, on the other hand what is the alternative? There are no alternatives. They need money to expand the economy."

The question of cheap asset sales is one which Beijing leaders are now addressing but few predict any changes affecting the financial markets.

Mr Hui is confident that this is one of the last areas Beijing will seek to change, "for the simple reason there has always been a high degree of consensus between Hong Kong and China on economic policy. From Mr Tung Chee-hwa's point of view, it is not an area that gives him a lot of sleepless nights, so why think about it?"

Mr Hui concedes, however, that Hong Kong's capital markets are not quite the stuff of text books. While the stock market is now seventh biggest in the world and the least restrictive and most liquid in the region – the debt market is paltry. Meanwhile, competition from elsewhere in the region is escalating.

"Bond markets have always been the gap for us in terms of our status as a financial centre, but things will happen gradually," says Mr Hui.

His optimism is fuelled by two developments: the creation next year of a mandatory pension fund, which is expected to be operational in the fourth quarter and will create demand for fixed income instruments; and this year's launch of the Mortgage Corporation, which aims to securitise banks' home loan portfolios.

Others are more circumspect. Mr Stephen Taran, a managing director at Lehman Brothers in Hong Kong, reckons corporations will prefer to access international markets where they can obtain funds up to 100 years – as China has done.

He highlights China's historic aversion to debt. "China's political philosophy is you cannot be a great power if you are heavily indebted to the rest of the world, as it was in the early 20th century. Its whole philosophy is to limit dependence on foreign debt."

In chasing China debt Hong Kong could also find itself up against a daily more formidable competitor: the mainland itself, in the shape of Shanghai.

Already the city has an active domestic and hard currency stock market. Its late arrival on the scene has enabled it to leapfrog existing technology and to employ the latest paperless trading systems.

Mr Mark Hantho, managing director at Morgan Stanley Asia, notes that in mid-May the domestic markets in Shanghai and Shenzhen, across the border from Hong Kong, were clocking up an average daily turnover of HK$28bn, or double the amount that Hong Kong was processing.

"Obviously a lot of people who are playing China right now are playing it through Hong Kong, and in time one would hope for the ability to invest in Shanghai directly. You think China is in its infancy, but in terms of a market where people are putting money to work it's extremely attractive," he says.

But for Mr Edgar Cheng, chairman of the Hong Kong Stock Exchange, rivalry with Shanghai is not an issue. The pie is just going to keep growing and the territory starts with a slew of advantages – not least the retention of low taxes and an open market – while the absence of foreign exchange controls makes Hong Kong the most liberal place in the Asian time zone.

Like his peers, he sees challenges. But as long as aircraft and trains continue to cross the border, the moneymen will shuttle to and fro, suggesting that capitalism is one Hong Kong habit Beijing has had little trouble acquiring.

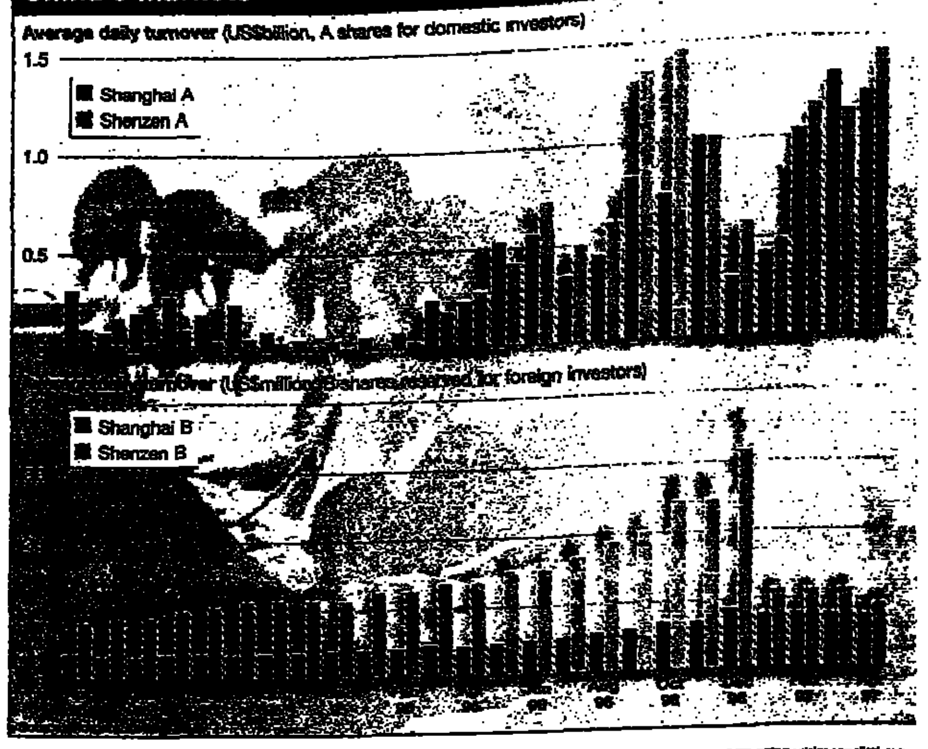
Red chips major capital-raising operations

Since January 1996

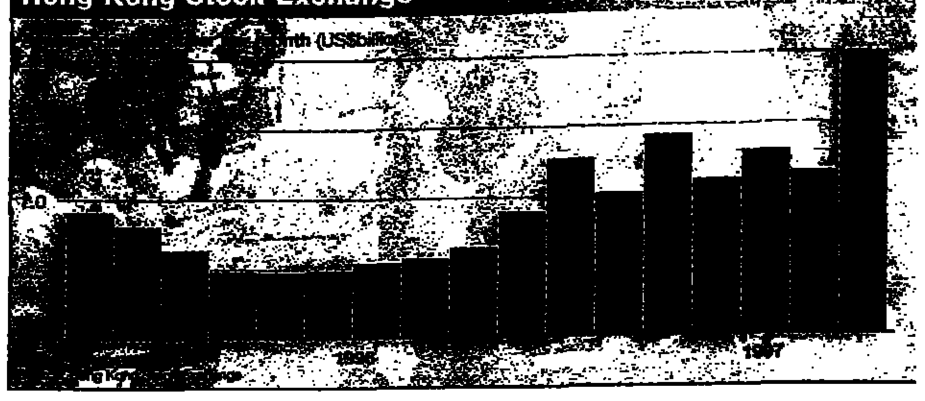
	Company name	Funds raised HK$m
[illegible]	[illegible]	[illegible]
Jul	China Overseas Land & Investment	780
[illegible]	[illegible]	[illegible]
Sep	China Travel International Investment Hong Kong	792
[illegible]	[illegible]	[illegible]
Sep	Guangdong Investment	418
[illegible]	[illegible]	[illegible]
Oct	COSCO Pacific	1,550
[illegible]	[illegible]	[illegible]
Oct	Shougang Concord International Enterprises	187
[illegible]	[illegible]	[illegible]
1997 Jan	China Travel International Investment	2,520
[illegible]	[illegible]	[illegible]
Jan	China Everbright Technology	80
[illegible]	[illegible]	[illegible]
Jan	China Overseas Land & Investment	1,528
[illegible]	[illegible]	[illegible]
Feb	Continental Mariner	314
[illegible]	[illegible]	[illegible]
Apr	China merchants	3,920
[illegible]	[illegible]	[illegible]

Source: Hong Kong Stock Exchange companies

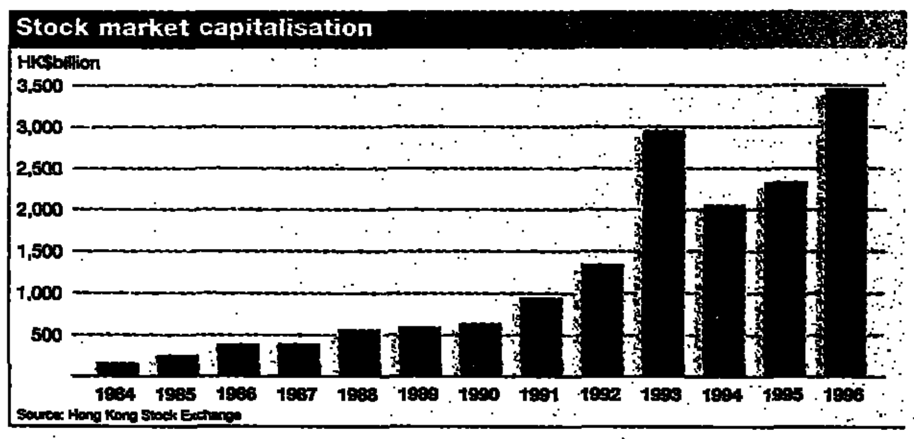
China's markets



Hong Kong Stock Exchange



Stock market capitalisation



Source: Hong Kong Stock Exchange

VIEWPOINT

Marc Faber, aka Dr Doom, on account of his contrarian and frequently gloomy views, paints a picture of diminishing advantages: traders decamping from Hong Kong to China, falling property prices and rising corruption. He refers to the experience through the ages and concludes: "No city has stayed at the top for very long.

"Even if you are optimistic about Hong Kong you have to say it will follow the business and political cycle in China from now on.

"These are two issues nobody knows about. That would increase the risk premium you should assign to Hong Kong. I think in three to five years we will see Hong Kong becoming part of China and have the same tax rates and currency.

"If the sun is out then the economic outlook is modestly positive, with the caveat that property prices are already too high. But if there's a downturn in the economy in China or worldwide Hong Kong could be hard hit.

"And if someone says Hong Kong's future is bright based on the financial sector, I say that everywhere that sector has been highly cyclical. In New York yesterday's fund managers are driving taxi cabs. You move into a more cyclical environment."

INFRASTRUCTURE • by Louise Lucas and James Harding

Calling in the builders

With its geographic proximity and access to skills, the territory will play an increasingly prominent role in China's drive to modernise

After nearly two decades of using China as a factory site, Hong Kong companies are moving the builders in – helping construct the roads, ports and power plants that will provide the platform for China's next stage of economic development.

China's infrastructure needs are huge: the World Bank estimates that about 45 per cent of the US$3bn a year it lends the mainland winds up in infrastructure and the private sector is pumping in still more.

Beijing itself has pinpointed infrastructure as a pillar of economic development. The Ninth Five-Year Plan, the government blueprint for development between 1996 and 2000, shows China's total investment in fixed assets is expected to reach US$1,500bn. Over the next 10 years, investment in infrastructure is likely to reach US$800bn.

Hong Kong companies have been private sector pioneers in infrastructure development. Hopewell Holdings, builder of the Shenzhen-Guangzhou superhighway as well as power plants, has invested US$4.4bn.

Two of the territory's biggest property developers, New World Development and Cheung Kong Holdings, last year spun off their mainly China-based infrastructure arms. By creating separately listed vehicles, funds were raised for more projects and – they say – management is better able to devote time to these projects.

Hutchison Whampoa, the conglomerate which, like Cheung Kong, is controlled by Mr Li Ka-shing, has been active in ports development in Shanghai, Yantian and feeder ports in southern China's Pearl River delta. Between 1990 and 1995, China added 300 new berths to its ports capacity, raising the total to 1,263.

But while the territory's companies may be at the forefront of those involved in developing China infrastructure, they are being pursued by big global names such as ABB, the Swedish-Swiss infrastructure and power company, and Anglo-French GEC-Alsthom.

Shortlists for China's two trailblazing build-operate-transfer power projects, Laibin B and Changsha, were dominated by foreign players: the former, a Ffr3bn ($0.52bn) plant, went to Electricité de France and GEC-Alsthom.

This trend has in turn accentuated Hong Kong's second role in building China: providing finance. About US$1bn in equity is being raised this year for toll roads alone; other equity issues have been launched for railways and power plants.

More funds are being sought via project finance, a method which has moved out of the limelight in recent years due to concerns over guarantees, foreign exchange convertibility, and China's legal and regulatory environment. Bankers say project finance for China only took root last year. Until then, the requirement for guarantees meant project finance was not of the classic limited-recourse or non-recourse format.

Now, particularly with the imminent financial closure of the pioneering Laibin B power plant, there has been a sharp rise in project finance deals. Up to one-and-a-half years has been shaved off the usual approval to financial closure for Laibin B, and Changsha is expected to be even quicker.

Bankers expect the BOT experience to ease the bottleneck of projects and they predict a more fruitful year for their project finance colleagues. The initial wave is likely to remain in the traditional areas of transportation, roads and power plants, with telecoms coming in later as Beijing relaxes the current ban on foreign involvement.

Continued on page 11

HONG KONG COMPANIES IN CHINA • by Louise Lucas

Investors march on into new territory

The pattern of spending on the mainland is shifting from process industries to the infrastructure needed to help China modernise

Hong Kong companies have long been in the vanguard of the commercial march into China. The territory accounts for some 60 per cent of China's external investment – as much as 80 per cent in the case of neighbouring Guangdong province – and the pace shows no signs of slowing down. The pattern of spending is, however, undergoing a metamorphosis.

The first wave of Hong Kong investors in China essentially comprised process industries, keen to capitalise on China's cheap land and labour to feed overseas demand. Today's investors are more likely to be building office blocks, roads and power plants – the infrastructure which will allow mainland China to modernise its economy.

Even so, manufacturing is set to remain crucial to Hong Kong investors well into the next millennium, as the case of V-Tech, an electronics company which has a US$150m factory in Dongguan in southern China illustrates. It plans to complete its second US$200m plant in 2003, quadrupling its production capacity.

The company, turns out some 15m educational toys a year, along with cordless phones and computer products.

"On certain fronts I hope that it will be easier after the handover," says Mr Allan Wong, chairman and chief executive of the company.

"I hope that cross-barrier formalities will be simpler once Hong Kong is part of China – the congestion is pretty bad these days – and we can maybe have lower import barriers," Mr Wong adds.

Chased out of Hong Kong in 1985 by labour shortages in the territory, V-Tech has been impressed by the standards among its 20,000 mainland workers – including the graduates holding supervisory jobs.

More recently, the engineering talent pool prompted it to shift research and development to China, to a department which now employs 300 people.

The move into more value-added areas is one Mr Ronnie Chan, chairman of Hang Lung Development, the property company, also believes will accelerate. "There are tons of opportunities for servicing manufacturing," he says.

He believes this is an area where Hong Kongers can play a big role. Opportunities cited by Mr Chan include making products more competitive by, for example, improving their packaging and using more aggressive marketing techniques.

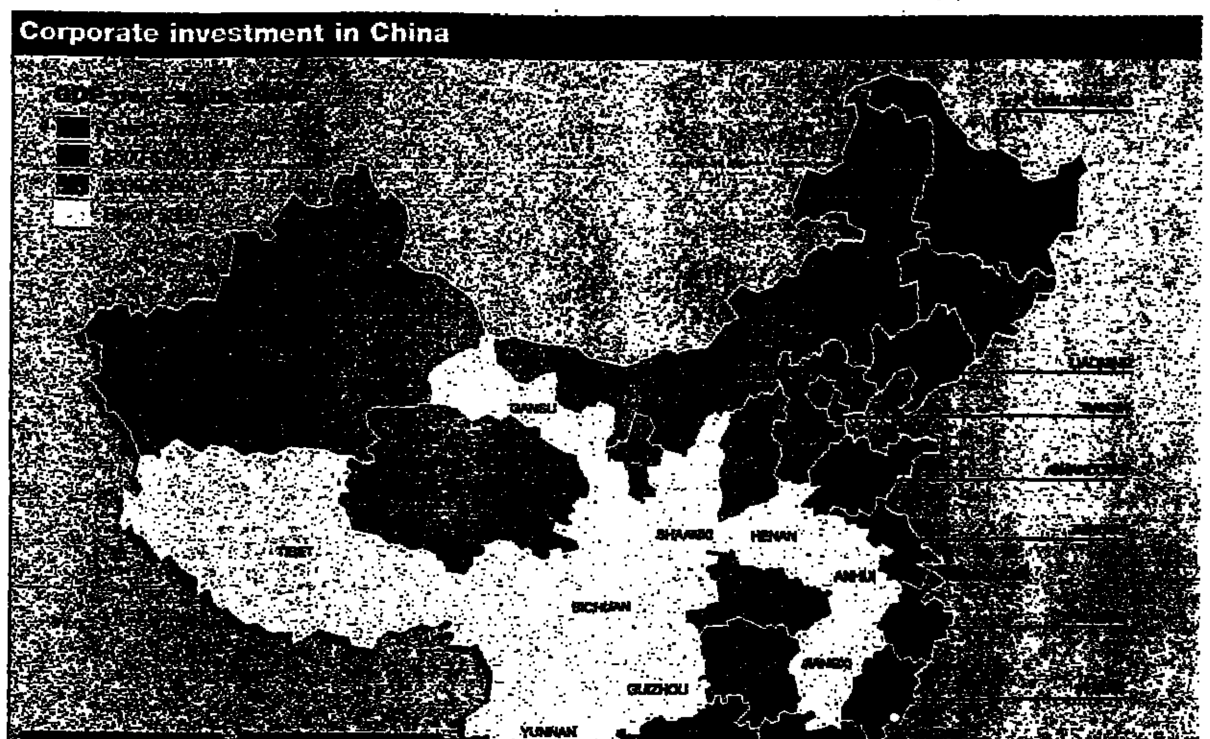
Other manufacturers are also talking about upgrading their product lines.

Equally ambitious are some of the infrastructure projects being built across the border with Hong Kong funds and expertise. Mr Gordon Wu, chairman of Hopewell Holdings, recalls how Chinese officials attempted to modify his proposals for a six-lane highway, by restricting it to two carriageways.

Yet the 123km superhighway linking Hong Kong to Shenzhen was built with all six lanes, and in the space of two years (or one-fifth of the gestation period). Hopewell is now one of the biggest investors on the mainland, with projects predominantly in roads, power generation and hotels, and a total investment of some US$4.4bn. A further US$700m is committed to projects that are currently under construction.

More funds are due to be channelled across the border following the easing of credit controls in China. "Once the economy moves up, I will go full force," says Mr Wu, adding that China is an obvious target for Hong Kong investment because of its physical proximity and long-standing ties.

Corporate investment in China



Attributable cost

PROVINCE	HK$m
Guangdong	68,168
Shanghai	19,869
Hubei	10,732
Beijing	10,334
Shandong	9,005
Jiangsu	3,641
Liaoning	2,677
Sichuan	2,113
Anhui	1,679
Guangxi	1,534
Tianjin	724
Henan	589
Fujian	554
Heilongjiang	465
Jilin	132
Xiamen	77
Shanxi	60
Hainan	44

March 1996

Investments

PROVINCE	Number
Guangdong	150
Shanghai	87
Beijing	44
Fujian	20
Hubei	19
Tianjin	15
Liaoning	14
Shandong	10
Sichuan	10
Jiangsu	7
Guangxi	6
Henan	6
Anhui	4
Hainan	3
Heilongjiang	1
Jilin	3
Shanxi	1
Xiamen	1

March 1996

HK investors: 1996 top ten

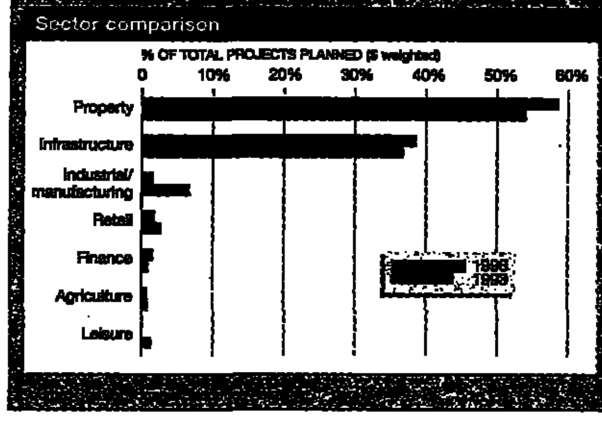
	COMPANY	HK$m
1	New World Development	24,982
2	Hopewell Holdings[1]	21,296
3	Henderson Land	13,751
4	Hutchison Whampoa	9,582
5	Cons Elec Power (CEPA)[1]	8,767
6	China Light	7,700
7	New World Infrastructure[2]	7,370
8	Hang Lung Development	4,612
9	Sun Hung Kai Property	3,822
10	Citic Pacific	3,714

[1] Spun off from Hopewell in 1993
[2] Spun off from New World Development in 1993

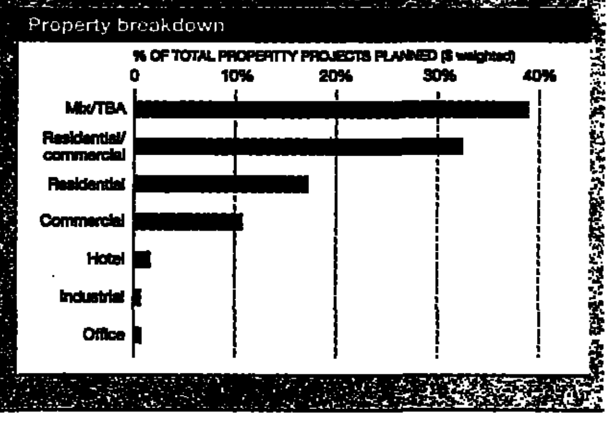
Regional winners and losers

BIGGEST WINNERS	% OF TOTAL INVESTMENT 1993	1996
Shandong	0.5	6.7
Jiangsu	0.5	2.7
Liaoning	0.4	2.0
Beijing	3.8	7.7
Shanghai	8.5	14.7
Hubei	7.1	7.9
BIGGEST LOSERS		
Hainan	8.3	0.0
Zhenjiang	1.2	0.0
Fujian	3.7	0.4
Tianjin	1.3	0.5
Guangdong	61.7	50.5

Sector comparison



Property breakdown



Other Hong Kong companies expect certain benefits to flow following the handover: a long-running problem on the superhighway, for example, has been the difficulty of allowing cars to drive through from Hong Kong.

Hopewell executives hope that restrictions will be eased once the territory becomes a part of China after July 1.

But Beijing officials signal that benefits will flow both ways and point to a role for Hong Kong in plans to develop China's hinterland. "There is much room for Hong Kong players there," says Ms Li Yanjun, associate professor at the Research Institute for International Economic Co-operation, a state body.

While Hong Kong companies have been creeping away from their original stamping ground in Guangdong and around the Pearl River Delta, many are beginning to look further afield for opportunities.

New World Development, a property developer that is one of the most aggressive investors in China with a committed spend of US$3bn, has undertaken projects which range from housing development in Wuhan to a liquid propane gas project in Ningbo.

"At first we picked the major cities along the coastal areas. But recently the central government wanted to shift investors inland, and so now we are looking at that possibility," says Mr Henry Cheng, New World's managing director.

If Hong Kong companies are the logical front line investors in China, they are also among the most canny when it comes to strategy. V-Tech, for example, has shunned the temptation of the domestic market and concentrated purely on manufacturing.

Mr Wong has been content to see overheads more than halved, even taking into account the provision of dormitories, recreation facilities and canteens for the mostly rural staff who come to work at the Dongguan factory.

Few of Mr Wong's Hong Kong counterparts see any reason to turn off the investment tap.

"I'm pretty sure China will leave us alone," says Mr Chan. "But I'm not sure I want to leave them alone. There are huge opportunities for Hong Kong companies in China."

Building fever in the People's Republic: China's infrastructure needs are enormous and Hong Kong companies remain at the forefront of the construction boom on the mainland Sarah Murray

Calling in the builders

Continued from page 10

"The appetite for project finance in China has largely been unsatisfied in the past and there's considerable pent-up demand," says Mr Robin Gibbons, director, corporate and project finance at BZW Asia.

Mr Kevin Julian, a partner in the infrastructure and project finance group at Freshfields, the law firm which acted for the sponsors on Laibin B, adds that this will in turn expand the role of Hong Kong. "Far from diminishing, Hong Kong's role will expand rapidly on the back of that development in China," he says.

Hong Kong's attraction is in part the availability of language and professional skills – bankers, lawyers and accountants – and in part its proximity to China.

As projects appear in more far-flung provinces, away from the main cities, it is less easy to make direct connections from outside Hong Kong.

Mr Gibbons sees a role for Shanghai to take on the mantle, but reckons this will not be for some time yet, not least because of the difficulty of attracting professionals to work there.

Even so, there has been a marked polarisation of the business in recent years. In 1995, frustrated by the long delays in concluding deals, several banks have shifted project finance departments to Singapore where rents were cheaper and it was easier to service south-east Asia and the Indian sub-continent.

Today, many operate in Hong Kong purely to service China. "China projects always seem to gravitate towards Hong Kong," says Mr Julian. This is not to say, however, that the business ends up with local Hong Kong people. In contrast to equity or debt syndication, project financing remains an area heavily staffed by westerners – according to one banker, a reflection of the longer lead times and less lucrative returns.

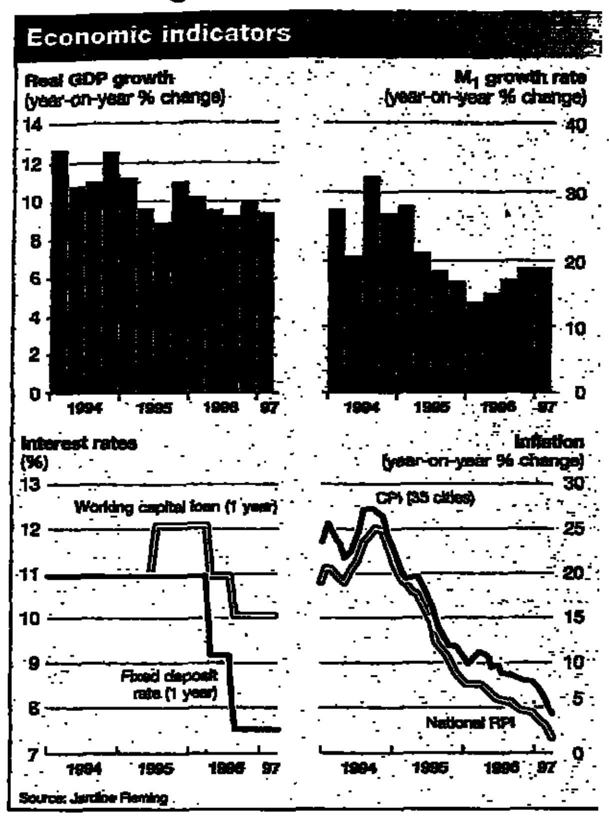
THE CHINA EFFECT • by Peter Montagnon

In the tiger's eye

The success of the 'one country, two systems' concept will depend on sound economic management on the mainland

Chairman Mao Zedong once reportedly remarked that Hong Kong was no more than a pimple on China's backside. In economic terms at least, the perspective today is not quite so unflattering, even if the mainland still dominates. Hong Kong's economy is a quarter the size of China's and the two are closely intertwined.

Long before the handover was even dreamed of, Hong Kong played an important role for China as a source of foreign exchange. Economic interdependence has grown since the Chinese reforms of 1979 opened up the Pearl River delta to Hong Kong manufacturing investment. Most analysts assume that the trend towards economic integration will intensify after July 1, even under different systems.



China's own growing significance in the world economy means the Hong Kong business cycle is driven by developments north of the border. Gone are the days when Hong Kong's economic affairs reflected the state of demand in North America.

With US$99.3bn of paid-up foreign investment in China, Hong Kong accounts for more than half the overseas investment in the mainland. About 36 per cent of its trade involves transhipment to and from China, a share, which, according to Beijing's ministry of trade, has been edging up.

According to Mr Wang Wende, head of Hong Kong affairs at the trade ministry in Beijing, the territory will continue to play an important role as a provider of infrastructure, capital and services for China after the handover. Its role as a gateway will last for many years, he says, not least because Hong Kong's sophistication as a financial centre puts it well ahead of anything China can offer.

Evidence that businessmen in Hong Kong agree is there for all to see. The territory's ports are full of Chinese goods; its banks are busy arranging share issues for mainland companies and finance for large infrastructure projects; its companies, often backed with mainland capital, are setting up deals to build new power stations, roads and telecommunications installations.

Not all agree, however. Mr Rajiv Lall, of E. M. Warburg Pincus in Hong Kong, argues that China will need Hong Kong less as it develops its own centres, further away from its newly industrialised south. Already, he says, the share of China's trade that passes through Hong Kong is leveling out. Eventually it will fall, forcing Hong Kong to look outwards again towards the Pacific.

"As the Chinese economy becomes larger, the relative importance of Hong Kong will diminish anyway," says Mr Fan Gang, a Beijing-based economic consultant. "But I don't think that this will have a big impact on Hong Kong itself. It is only relative."

Thus, even as China develops ports and financial centres, Hong Kong will still make a living by providing services to southern China.

But if the two economies are already well integrated, the handover comes at a time of mixed performance on the mainland. While growth is sluggish by recent standards, inflation appears well under control and China's economic leaders believe they have achieved a soft landing from the economic overheating of 1993 and 1994.

Announcing the budget in March, Mr Liu Zhongli, the finance minister, said he expected the economy to grow by 8 per cent this year, a rate still high by western standards, but one that in China marks a continuation of the economic consolidation phase established last year.

While overall retail sales remain buoyant and exports are picking up, China's recent economic performance has been marked by excessive inventory accumulation. Mr E. C. Hwa of the World Bank in Beijing calculates that inventories at the end of last year amounted to some 6 to 6.5 per cent of gross domestic product.

This is only about 1 percentage point above their long-run average, but unwinding them will create a drag on the economy at a time when investment spending is running at relatively low levels and overcapacity has emerged in sectors such as passenger cars.

Such a sluggish economic climate might prompt reflationary measures, but the government is keen to maintain an investment squeeze on state-owned industries to encourage them to reform, and the People's Bank of China is concerned that further monetary relaxation might provoke a bubble in China's already fizzing stock markets.

Still, such conservatism appears welcome in Hong Kong. In the short run, surplus liquidity in China has spilled over into Hong Kong's financial markets.

In the longer run, China's government has demonstrated a new sophistication in the current economic cycle in the way it has engineered a soft landing. Given the high level of economic independence, economists say that this can only be good for Hong Kong.

China may have granted the territory economic independence for the next 50 years, but now, more than ever before, its actions at home will determine whether the experiment will work. Two systems cannot flourish in one country without the confidence inspired by sound economic management in Beijing.

VIEWPOINT

Eric Kee, Kung Fu movie actor, producer and restaurant proprietor, is in a pickle because of new immigration laws which are making it harder for him to hire the Thai and Italian catering staff he needs for his restaurants.

"If anything, Hong Kong can only get better, if they stop all this stupid foreign labour policy. Immigration officers say you don't need so many Thai cooks, you can employ Chinese. But it's like saying employ an expat in a Chinese kitchen. You can but at the end of the day it's not authentic. This is a protectionist policy, it's not competive anymore. And what would this place be like if there were no foreigners? That's when I would get bored and leave.

"I'm glad Tung Chee-hwa is in power because he is a businessman and he is fair. You also need puppets like [Democratic legislator] Martin Lee. Although he is a bit of a joke, and is not representing Hong Kong people, we need people like that running around to make a noise and focus some international attention on Hong Kong.

"Democratics are like shareholders. They give more accountability. But if you have this democracy thing, which I never agree with, Hong Kong will not progress, it will only digress, because politicians steal the limelight and do not even do so in favour of the public."

TRADE • by Guy de Jonquières

Risks and rewards

Hong Kong's position as a gateway to China brings with it hazards as well as advantages in international trade

A dock worker at Kwai Chung container terminal: total trade last year represented about two-and-a-half times Hong Kong's gross domestic product while almost half of China's imports and exports pass through the territory *Sarah Murray*

When Hong Kong returns to China much of the world will be watching how Beijing exercises its responsibility for the former British colony. But the attention of Hong Kong's trade officials, and of much of its business community, will also be directed on developments in Washington.

The handover coincides with the debate in the US Congress on renewal of China's most favoured nation trade status, which guarantees non-discriminatory tariffs on Chinese exports to the US. Hong Kong has long observed this annual ritual nervously – but never more so than this year.

President Bill Clinton is strongly backing an extension for MFN but Congress is likely to defer a vote until after the handover. Many members want to assess how Beijing handles Hong Kong. Some want to tie MFN to conditions which would require China to demonstrate good behaviour.

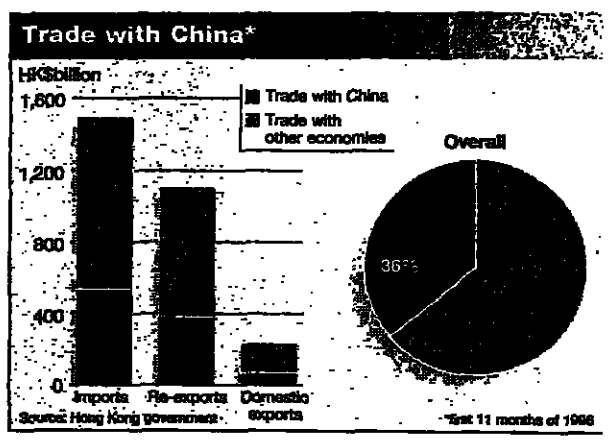
Although MFN is widely expected to continue in some form, most observers think renewal will take a much bigger effort than last year.

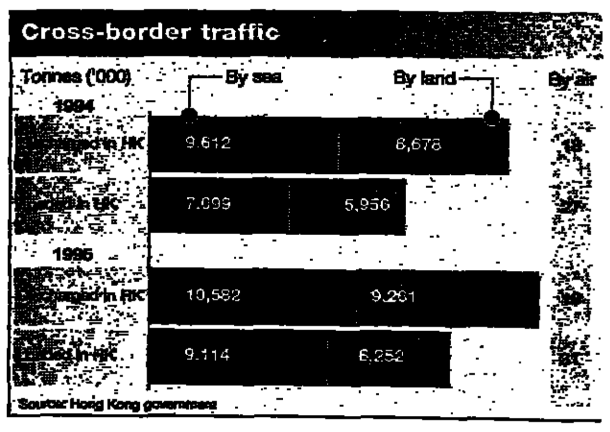
The issue risks becoming embroiled in controversy about China's human rights record, its yawning trade surplus with the US and allegations that it made covert US election campaign contributions.

The annual MFN renewal question hardly helps business confidence in Hong Kong, which depends on the US for more than a fifth of its exports. A large proportion is re-exports from Hong Kong-owned enterprises in China, profits from which are a vital source of the territory's foreign income.

Miss Denise Yue, Hong Kong's trade and industry secretary, says revoking MFN would be "catastrophic" for its economy and would halve its annual growth rate. Western politicians who threaten trade sanctions against China, in the belief that they are standing up for Hong Kong, show that "the road to hell is paved with good intentions".

Hong Kong's vulnerability to such threats underlines the two-edged nature of its economic and trade relationship with China. Almost half of China's imports and exports pass through the territory and account for about 40 per cent of Hong Kong's international trade.





China's growing economic and commercial importance has helped make Hong Kong the world's ninth biggest exporter and seventh biggest importer. The territory's total trade last year of HK$2,900bn was about two-and-a-half times its gross domestic product, reflecting its importance as an international entrepôt.

The resulting prosperity has underpinned Hong Kong's development as a regional services hub and a substantial capital exporter. It is the biggest foreign direct investor in the economies of south-east Asia and in the Asia-Pacific Economic Co-operation (Apec) forum, whose 18 members generate half the world's economic output.

However, acting as China's international gateway can be a nerve-racking experience, because Hong Kong regularly gets caught in the cross-fire of commercial disputes between Beijing and its international trading partners.

The territory has learned over the years to live with such problems. But Miss Yue is concerned that the rest of the world could make them worse after the handover, by assuming that Hong Kong has abdicated to China its independence in economic and trade affairs.

She emphasises that the transition arrangements stipulate that the territory will retain its border controls with China, its own customs procedures and the right to conduct international trade relations. It will also remain a full member in its own right of the World Trade Organisation, which China is seeking to join.

Miss Yue says China's membership of the organisation would not stop Hong Kong continuing loudly to bang the drum for free trade, whether or not that suited Beijing. "I can already envisage occasions when Hong Kong and mainland China will have very different and opposing standpoints in the WTO, simply because our commercial interests dictate it," she says.

Hong Kong has a clear interest in China's WTO entry, over which negotiations have dragged on for more than a decade. As well as obliging Beijing to respect multilateral rules and disciplines, membership would curtail other countries' freedom to take unilateral trade sanctions against it and ensure that trade disputes were settled through binding international arbitration.

Improving relations between Washington and Beijing have recently helped inject fresh impetus into the WTO talks. Even with a fair political wind, however, many more months of hard bargaining will be needed before the terms of China's accession can be agreed.

Meanwhile, Miss Yue says, other countries can best contribute to Hong Kong's continued prosperity by keeping politics and trade separate. "All we ask of them is not to look at Hong Kong through coloured glasses, and genuinely to give us a level playing field after the transition."

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CORPORATE LANDSCAPE • by John Ridding

New barons are staking their claims

Powerful mainland companies are making their presence felt

In land-scarce Hong Kong, the balance of business power is etched into the skyline. China-backed companies are building skyscrapers on the harbour front – long the preserve of British trading hongs. The razored towers of the Bank of China soar above the Hongkong Bank.

Such images suggest that after the dominance of British business and the rise of local tycoons, such as Mr Li Ka-shing and Mr Lee Shau-kee, it is corporate China's turn to take centre stage. And this raises vital questions for business in Hong Kong. Who are the new players? And does their arrival threaten the level playing field underpinning the territory's commercial success?

Mainland companies emerge constantly. Two weeks ago, China Telecom, the operating arm of the ministry of post and telecommunications, moved to take a 5.5 per cent stake in Hongkong Telecom. The ultimate aim, a statement read, was to become equal partners in the territory's dominant operator alongside the UK's Cable & Wireless.

The deal was just the latest move by China-backed businesses to take stakes in strategic Hong Kong industries. It came a few weeks after China Everbright bought a 7.7 per cent stake in Hongkong Telecom, raising the prospect of mainland control of one of Hong Kong's biggest companies.

Sitting in his harbourfront office, Mr Zhu Xiaohua, dismisses such fears that mainland companies will eclipse existing businesses. The chairman of China Everbright, the fast-rising business arm of China's state council, says mainland-backed companies will play by the rules. "Foreign investors can relax," he says. "We will not dominate as the British companies once did."

That message is backed up in Beijing. "We have ordered them to observe the market rules," says Mr Wang Wende, director general of the Hong Kong department at the ministry of foreign trade and economic co-operation. "Mainland investment in Hong Kong will not try to pursue a dominant role."

If not dominant, however, the growing number of Chinese companies in the territory is already powerful. The Bank of China is vying with Hongkong Bank for leadership in the market for deposits. Citic Pacific, the Hong Kong arm of Beijing's flagship investment vehicle, has become one of the territory's 10 biggest companies in terms of market capitalisation, with big stakes in Cathay Pacific, the de facto airline flag carrier, and China Light & Power, one of the biggest utilities. It also held 8 per cent of Hongkong Telecom, the dominant operator, until it sold the stake to China Everbright for HK$11.4bn last month. Mr Wang estimates that 1.800 mainland companies operate in Hong Kong, with total assets of about US$40bn.

The number has been boosted by the recent expansion of red chips – Hong Kong-listed companies controlled by mainland concerns, often provincial governments or state enterprises. They have taken the territory by storm this year, dominating fund-raising and issuing shares to purchase assets from their mainland parents.

"The future is red," says Mr Archie Hart, director of equities at BZW Asia, referring to the frenzied stock market activity surrounding the red chips. Mr John Wadsworth, chairman of Morgan Stanley Asia, estimates that red chips now account for more than 7 per cent of the Hong Kong market, compared with virtually zero five years ago.

Like most economic links between Hong Kong and China, the red chips are part of a two-way traffic. Mainland companies get capital, but also expertise – "Operating in this business environment creates a class of well-trained executives," says one red chip manager – while Hong Kong investors get access to mainland projects.

The same investors have been much cooler towards British-backed companies. While Shanghai Industrial, a fledgling conglomerate controlled by the city's municipal government, has seen its share price quintuple since its listing last year, the shares of Swire Pacific and Jardine Matheson, two of the territory's founding trading hongs, have underperformed by more than 15 per cent this year. Hongkong Telecom, but that has mainly reflected anticipation concerning the share sale to China Telecom.

"We are not flavour of the month," says Mr Peter Sutch, chairman of Swire Pacific, acknowledging the negative perception of British-backed companies.

But the Swire chief insists this perception is misguided. "I am confident that business will continue with the same level of transparency and fairness," he says.

Not all are so sanguine. Cases in which research analysts have been fired, apparently for unfavourable reports on mainland-backed companies, have raised concerns of political correctness creeping into business. So has the failure of Next Media to secure investment bank backers for a stock market listing. Its chairman, Mr Jimmy Lai, has been a vocal opponent of Beijing. Bankers worry that sponsoring the issue could be bad for business.

Some in the business community say the case of Swires illustrates the encroachment of politics into Hong Kong business. A share issue allowing Citic Pacific to take a 25 per cent stake in Cathay Pacific, it was argued, demonstrated the need to secure political insurance given the transfer to Chinese sovereignty. Other deals, including Citic's purchase of a 20 per cent stake in China Light & Power, have been viewed in a similar light.

Both the deals, however, were largely welcomed by investors. Though politics was a factor the terms were seen as acceptable.

"The deal was made on the market," says Mr Wadsworth at Morgan Stanley. "Cathay needed to raise a lot of money." The Hongkong Telecom deal seemed cheap, since China Telecom paid HK$14.25 per share compared with a market price of HK$19.00. But shares had soared on speculation of a deal, rising from just HK$13.00 a month ago. "C&W got pretty well paid." said a telecoms analyst.

Chinese leaders have been sending strong signals that business will remain as usual.

Last month, Mr Zhu Rongji, the mainland's top economic official, met Mr Henry Keswick, chairman of Jardine Matheson at the Zhongnanhai leadership compound in Beijing. The signal was clear: Jardines – once condemned as a "black sheep" for supporting governor Chris Patten's democratic reforms – is back in the fold. For the British conglomerate, and for other international businesses, that was a signal to rest assured.

For the time being, at least. The real test will come in the months following the handover. "We need to see whether the deals that have been sealed will stick," says a senior investment banker. "And there are still some tempting assets about," he adds, citing Hongkong Land, the property arm of Jardines and a former target of Mr Li Ka-Shing. Its tower blocks still dominate the commercial district. But they are now surrounded by the bristling towers of Hong Kong's new business barons.

Selected strategic deals involving mainland-backed

1. Aviation: April 1996
Citic Pacific pays HK$6.3bn to raise its stake in Cathay Pacific from 10 per cent to 25 percent. China National Aviation Corporation, the commercial arm of China's aviation regulator, pays HK$1.97bn to buy a 36 per cent stake in Dragonair from Swire, Citic Pacific and other shareholders.

2. Power: January 1997
Citic Pacific pays HK$16.25bn for a 20 per cent stake in China Light & Power. The stake held by Kadoorie family, one of Hong Kong's oldest business dynasties, falls from 33.3 per cent to 26.6 per cent.

3. Telecoms: May 1997
China Everbright, an investment arm of China's State Council, pays HK$11.39bn to buy a 7.7 per cent stake in Hongkong Telecom.
June: 1997
China Telecom pays HK$9.18bn for a 5.5% stake, with an understanding that it would buy further shares

4. Real estate: March 1996
The Bank of China group takes a 5 per cent stake in a consortium awarded a HK$40bn contract to develop a prime site above the new airport link Mass Transit Railway station in Hong Kong's central business district.

Hot property brings hazards

With every reward comes a risk and red chips are no exception. While investors pocketed hefty profits from the surge in the share price of mainland-backed companies, the rally brings hazards for punters, regulators and for market integrity.

"A bubble is building," says Mr Archie Hart, director of equities at BZW in Hong Kong. "And for some companies and investors this will end in tears."

Red chips grow by asset injections from their mainland parents so their share price reflects assumptions about future transfers, making it hard to value their worth. But it is often harder still to justify the prices being paid for an assortment of assets and management drawn from municipal or provincial government.

Potential pitfalls, however, extend beyond the bursting of an investment bubble. Chinese officials worry that state assets are being transferred too cheaply to the Hong Kong vehicles and have signalled they might tighten controls on approval procedures. Mr Zhu Rongji, vice-premier and China's economic czar, has said assets must not be sold at a discount.

Hong Kong regulators are equally concerned about the lack of transparency surrounding several red chip share issues and asset injections. Last month, the stock exchange and the securities and futures commission warned that transactions would not be approved if they followed irregular share price movements.

"Red chip plays are becoming something of a casino, and that risks damaging the credibility of the market," says a fund manager, referring to the frenzy surrounding last month's listing of Beijing Enterprises. The investment arm of the Beijing municipal government was more than 1,000 times subscribed, a record for Hong Kong.

Others see a more serious risk in the scope for corruption – from the unequal access to information to the terms on which assets are injected from parent companies. In some cases, red chip executives hold share options, manage the Hong Kong company and decide which assets should be injected. "You have the potential for some pretty murky dealings," says the fund manager. "This is going to be a crucial test for the market regulators."

How they respond may determine whether red chips establish themselves as a reliable form of funding for China's economic reform. For mainland companies, and for Hong Kong's markets, much is at stake.

J.R.

INTERVIEW Larry Yung

Model for the mainland

On the wall of Larry Yung's office is a swordfish, a replica of one hauled from the China Sea by the Citic Pacific chairman. On the table is a ceramic model of Mr Vitality – the star of Mr Yung's stable and Hong Kong's champion racehorse in the 1995-96 season.

But Mr Yung is no social butterfly, even if the head of the Beijing-backed conglomerate is entrenched in the Hong Kong establishment. While his office is filled with trophies, his head is full of figures. "We paid HK$32.6 per share for 20 per cent, costing us about HK$16.2bn, of which about HK$6.50 is cash, about HK$4.00 is property," says Mr Yung, crunching some of the numbers behind a recent investment.

That investment – a 20 per cent stake in China Light & Power – was the latest in a series of bold transactions by the Citic Pacific chief. It confirmed him as one of Hong Kong's leading corporate power-brokers, further extending the reach of Citic Pacific, now one of the 10 biggest companies in the territory.

With Hong Kong's return to China, a lot rests on Mr Yung's shoulders. As the vanguard of corporate China, Citic's performance has demonstrated the potential of mainland-backed companies. The question is whether Citic and the other red-chips from across the border will continue to succeed and how they will shape Hong Kong capitalism.

Mr Yung is optimistic on both counts. He sees strong growth opportunities on both sides of the border and believes the one country, two systems formula will preserve the territory's edge. "There will be difficulties," he says. "But nothing that cannot be resolved."

The Citic chief rejects fears that Hong Kong companies will be forced into deals by marauding mainlanders, although he points to the commercial benefit that can be reaped by cross-border alliances. "Under one country, two systems, there is no way anyone can force companies to sell," insists Mr Yung.

Despite concerns earlier this year about the terms of a management share purchase, investment analysts say the company has played by the rules in its corporate forays. "They paid the right price for CLP," says one senior investment banker. "Cathay looked a little cheap, but it was a lot of money in a difficult sector," he adds, referring to the more than HK$6bn paid by Citic to take its stake to 25 per cent.

The success of companies such as Citic – as much as provisions in the handover agreements – will ensure a level playing field. If mainlanders can succeed while abiding by the rules, there is less incentive to bend them. Once established in Hong Kong, they might also defend the system.

Mr Yung believes Citic Pacific's success can be sustained. Net profits have soared from HK$333m in 1990 to HK$5.86bn last year and he believes the trend will continue. "We should see strong growth through 1999, with record earnings per share," he says.

The rise, however, will be driven by a new strategy. In the early 1990s, Citic's powered its growth by acquiring assets from corporate Hong Kong, lumped together as a holding company and bolstering the bottom line through dividend payments. Connections counted. Mr Yung's ties on the mainland – his father is the vice-president – helped establish the group as a powerful ally and eased its purchase of stakes.

But Mr Yung, an engineer by training, has since shifted to a more hands-on approach. "We have been moving steadily from passive investments," he says, a move underlined by the sale of its 7.7 per cent stake in Hongkong Telecom last month. Connections remain important, but not critical.

"Citic's main strength is management and staff, not Beijing," says Mr Nam Park at ING Barings. "Autonomy from Beijing has been one of the conditions of the company's formation."

At the heart of Mr Yung's strategy lie substantial infrastructure projects on the mainland. Citic Pacific is involved in power stations, bridges and roads in major Chinese cities. More projects are under discussion, he says, including an extension to the Ligang power plant in Jiangsu province. The alliance with CLP provides scope for growth in China, in the Hong Kong power sector and in the development of the utility's land holdings.

"On the aviation front, the new airport means that turnover will increase tremendously," says Mr Yung. "We hold about one-quarter of the aviation industry and we are willing to exert a lot of effort to maximise our opportunities."

Many of these projects will take time to feed through to the bottom line. But analysts are optimistic. Mr Nam Park at ING Barings predicts earnings per share will rise at a compound rate of 23 per cent over the five years to 2001. "Larry has assembled a strong team of executives", says one US investment banker. "They shouldn't have any trouble making this transition from a holding company to a Hong Kong-style conglomerate."

Their success in doing so matters well beyond the walls of the company's headquarters, soon to move to the glittering new Citic Tower overlooking Victoria Harbour. A flood of new red chips has followed on Citic's heels, raising cash from local investors to buy projects on the mainland. Once their rapid expansion has cooled, they will have to manage these assets. Citic Pacific, the most successful red chip, is likely to stand as a model.

J.R.

MULTINATIONALS • by Louise Lucas

Paying the high price of success

While the territory still boasts excellent skills and infrastructure, many companies are moving to escape the cost of these services

Like their precursors, the eastern trading houses, multinationals have flocked to Hong Kong. But there are signs of a shift in corporate landscape, with such Goliaths of the commercial world as Citibank moving their headquarters north.

As their China operations expand, a growing number of companies has followed suit, arguing that it no longer makes sense to sit at the gateway – Hong Kong – when China itself offers ever improving infrastructure, human talent and (no small consideration) an increasingly comfortable expatriate lifestyle.

Such moves add a new twist to the rivalry between the regional business centres and raise a question about Hong Kong's competitive edge.

One relocated boss, whose personal productivity is many times greater now he has stopped spending hours in airport waiting lounges and on planes, reckons Hong Kong can no longer lay claim to the "clearing house" of Asia role.

"Trying to run China out of Hong Kong is like trying to run the US market out of Bermuda," he says. By comparison, sitting in Beijing means proximity to decision makers, suppliers and customers and regular opportunities to talk to other China executives and bankers.

The same logic has tempted others to up sticks, including ABB, the Swedish-Swiss power company, which moved its greater China office to Beijing from Hong Kong and Fluor Daniels, the international engineering construction contractor.

Such big names catch the eye, but they remain the exception rather than the rule. More than 2,000 multinationals today have their regional headquarters or offices in Hong Kong (often supplemented by logistical support offices in Beijing or Shanghai).

And, for consultants charged with structuring Asian operations, those spurning Hong Kong in favour of the mainland or other centres are – for the foreseeable future – set to remain a small minority.

They see little changing in Hong Kong's key attractions: a platform into China which offers sophisticated infrastructure and communications, an educated workforce and strong capital market, all within an open economy and low-tax structure.

"Hong Kong has ethical and professional staff, excellent infrastructure and the 15 per cent income tax is the lowest that can be found in Asia.

Add all these together and Hong Kong is a key area to put regional headquarters," says Mr Francis Lo, regional director of finance at Intel.

Above all, businessmen will prefer to remain south of the border for what is arguably Britain's greatest gift to its former colonies – the rule of law and, in Hong Kong's case, a reputation for being a centre where corruption has been successfully kept in check.

According to Mr Gerry Hopkinson, a partner at consultancy KPMG, businesses are here because they have to be. "The size of the market and all those considerations have not changed. The slight uncertainty that there was in business peoples' minds across the world has gone. They are now coming in here by the bucketful."

This is in spite of intense competition from around the region, including Singapore, Kuala Lumpur and Manila where incentives have been dangled in front of businesses, such as access to the domestic fund management market.

These centres have had some success, notably in Singapore's case in the fund management industry, but have largely supplemented rather than replaced Hong Kong operations.

Yet, the longer-term threats to Hong Kong's regional status cannot be discounted. With the resumption of direct shipping links between Taiwan and China, Taiwan's role as a regional hub – once flights are also allowed – could lure delivery companies and airlines, many of which gripe about Hong Kong costs.

Already, companies such as American Express and Cathay Pacific, Hong Kong's main airline, have sought to reduce their rocketing rent bills by setting up back office operations in Sydney, where costs are lower and there is a multilingual workforce.

Today the biggest concern faced by multinational chiefs is bills. "If rents keep on climbing a lot of people will have second thoughts about setting up their next operation in Hong Kong," says Mr Wilhelm Gattinger, managing director of Siemens, the German engineering group.

Siemens, which operates businesses in 18 different divisions across Asia, has offices across China and refers to its Hong Kong office as a regional hub. Hong Kong recently lost out to two more Siemens operations, which went to Singapore and Kuala Lumpur, because of "outrageous" rents.

"In other countries rent represents around 20 per cent of your overheads; in Hong Kong it climbs to 50 per cent or more. This is one of the dangers here," says Mr Gottinger.

As Hong Kong can no longer lay claim to a monopoly in the region for workable infrastructure and sophisticated financial markets, the combination of high overheads, declining workforce skills and escalating competition (not least from Shanghai) stands to jeopardise its position.

There are other less obvious problems, too, as KPMG's Mr Hopkinson points out. "The quality of English has deteriorated – this is something that simply has to be addressed – and we must hope that the strengths of the anti-corruption body are not eroded," he says.

And if Hong Kong slips even slightly, there will be no shortage of centres ready and willing to capitalise on the fall-out.

"To say that we are smarter, with more skills and better infrastructure may well be true as a snapshot today. But it may not be the case in five or 10 years' time," warns Mr Marc Faber, who runs a fund management company.

Multinationals in Hong Kong (US$)

	Monthly Office Rental	Monthly Residential Rental	Tax Rate	Average Monthly Wages
Hong Kong	$67-$104 per square metre	$58-$82 per square metre	Corporate tax :16.5% Salaries tax: income is progressively taxed at 2%-20% subject to a limit of 15% of total income	$4,333-$21,500 (manager-manufacturing sector) $5,417-$21,500 (manager-banking & finance sector)
Singapore	$50-$85 per square metre	$18-$22 per square metre	Corporate tax: 26% of taxable income Personal income tax: progressive ranging from 2.5%-2.8%	$2,899-$6,634 (manager-manufacturing sector) $3,696-$10,855 (manager-banking & finance sector)
Kuala Lumpur	$15-$19 per square metre	$12-$18 per square metre	Corporate tax: 30% Personal income tax: progressive rate from 2%-30%	$3,600 (manager) $1,283 (production supervisor)
Beijing & Shanghai	Beijing: $36-$64 Shanghai: $43-$57 per square metre	Beijing: $34-$51 Shanghai: $24-$50 per square metre	Business tax: 3%-20% Income tax: progressive rate of 5%-45% on salaries and at 20% on other incomes, subject to a monthly personal allowance	$240-$10,000 (manager-manufacturing sector) $500-$13,900 (manager-banking & finance sector)

Source: Asia Pacific Business Guide (1997)

■ **VIEWPOINT**

Professor Wang Qingzheng is vice-director of the Shanghai Museum. With arguably the world's finest collection of ancient Chinese bronze, calligraphy and ceramics, last autumn the museum – taking pride of place in Shanghai's cultural renaissance – moved into its Yn570m (US$68m) new home in the middle of People's Square. With Ma Chenyuan, the museum's director, Professor Wang has been instrumental in the rehabilitation of the Shanghai Museum and his measure of development is cultural – Chinese culture.

"I am afraid that it will be a long time before Hong Kong can compete with Beijing and Shanghai. Hong Kong has a different heritage. It will still be a western city after the handover. It is hard to say how long it will take Hong Kong. After the handover, the influence of British culture will recede. The birthday of the queen will no longer be celebrated.

"There will be a stronger expression of Chinese culture. Change will happen gradually. Of course, Hong Kong is an international city and some things, like Chinese opera, may not spread deeply in Hong Kong – Chinese opera is not so popular here nowadays. But after the handover, they should speak more Mandarin Chinese. If Mandarin becomes popular, it should bring cultural changes in its wake.

"People have to have knowledge about the whole world and I encourage cultural exchange...Perhaps we [Shanghai and Hong Kong] will meet in the middle."

The new dynamic young Shanghainese stroll in front of the Bund, the old colonial waterfront. In spite of the city's astonishingly rapid growth, it still has a long way to go before it catches up with the mature free market that is Hong Kong Sarah Murray

THE VIEW FROM SHANGHAI • by James Harding

The dragon's other eye

The pace of development in the port is breathless. But suggestions that the eastern city will soon eclipse Hong Kong are premature

Weekend visitors from Hong Kong coming to Shanghai often return home breathless and a little unnerved – the outward signs of growth in China's largest city fuel fears that Hong Kong's days as the gateway to China are numbered.

Shanghai accounts for 1 per cent of China's population, but 8 per cent of its gross domestic product and more than 20 per cent of its total foreign investment.

While the rate of investment slowed elsewhere in China last year, contracted foreign investment accelerated in Shanghai reaching US$11bn.

Judging by the signs of construction – there are more than 18,000 registered building sites and, according to local reports, one fifth of the world's high rise cranes in Shanghai – this is a city in a hurry.

In Pudong, in the east of the city, China's financial and commercial centre is rising out of the mudflats. New buildings – including the $1bn Mori tower which is set to be the world's tallest – will help lift Shanghai's quality office space from 300,000 sq m last year to 20m sq m in little over a decade.

The development is blessed by Beijing and the central government has committed Yn94.9bn ($11.3bn) over the period 1996-2000 to Pudong which is intended to make Shanghai the roaring "dragon's head" of the mighty Yangtze river.

A cultural renaissance has accompanied the burgeoning growth – a grand new museum houses the city's extensive collection of Chinese arts and ceramics, a mammoth library opened a few months ago, an opera house should be completed next year and a concert hall is planned for after 1999.

The dynamism is breathtaking and Shanghai promises to be a financial and commercial centre to be reckoned with. But suggestions that Shanghai will soon eclipse Hong Kong and regain its pre-war status as the foreign investor's preferred stepping-stone into China are premature.

Shanghai has boasted 14 per cent growth on average in the past few years, but investment, largely foreign investment, has accounted for 70 per cent of the city's output and the bulk of that growth. Consumption levels remain low and are only growing slowly.

Such investment-driven growth makes Shanghai's economic future look a touch precarious. To maintain the rates of growth that will fill the new office blocks, create the jobs to compensate for the city's creeping deindustrialisation and satisfy the rising expectations of the Shanghainese, returns on investment need to improve and foreign capital must keep on coming.

Last year, Hong Kong accounted for 46 per cent of Shanghai's capital inflow, according to Mr Zhao Qizheng, the vice mayor. He concludes that "mutual reliance and not malignant rivalry will dominate ties between Shanghai and Hong Kong after the handover.

"Even healthy rivalry will not be feasible until Shanghai has developed the skeleton – let alone the muscle – of a mature free market.

"Our legal system is far behind what is needed to support an international financial centre," says Professor Lu Deming of the economics department at Fudan University. "It will be impossible for Shanghai to compete with Hong Kong for at least 20 years."

Foreign financiers in Shanghai tend to agree that Hong Kong will remain a preferable place to raise capital. They say that Shanghai needs almost a generation to give enough people enough English language and overseas experience to meet the demands of truly global markets.

Until China achieves full currency convertibility – unlikely in the next five years – the stock markets are overwhelmingly restricted to mainland buyers trading in Chinese yuan.

Hong Kong's position as the leading port into China – it handles seven times the cargo annually managed by Shanghai – also seems safe for the foreseeable future, as Shanghai cannot rival the attractions of a sophisticated free port.

Professor Lu says the hallmark of Hong Kong companies is their freedom to pursue profits.

By contrast, Shanghai's businesses, locked into China's "socialist market economy," face pressure from Beijing to meet social and political obligations – such as salvaging loss-making state-owned enterprises through government-orchestrated mergers or shouldering heavy welfare payments for redundant workers.

Mr Li Lanqing, China's vice-premier, suggests that the distinction will persist. "Hong Kong pursues its capitalist system and Shanghai its socialist system. Hong Kong cannot possibly change its system into a socialist one, nor can Shanghai into a capitalist one," Mr Li said in an interview for this survey.

In the run-up to handover, China's leaders have been keen to put Hong Kong at ease by suggesting that Shanghai and Hong Kong will play complementary roles. They say that Shanghai will serve domestic markets, Hong Kong the international markets – "like two engines on a large aircraft".

This is a little disingenuous. Currency convertibility is a stated goal of the Chinese government and when it eventually comes it will catapault China's markets into the heavyweight league. The cultural obstacles to catching up with Hong Kong – the lack of a legal framework, international outlook and the economic freedoms – are eventually surmountable.

But Hong Kong as a financial centre will remain a moving target. Its peer group today includes New York and London – rather than Shanghai and Shenzhen – and to keep in that class Hong Kong will have to continue to refine and upgrade its financial and commercial expertise.

None of this means that Hong Kong's pre-eminence is guaranteed, but just that it should not worry. At least, not for a little while yet.

SOCIETY AND CULTURE:

The implications of the transfer for such areas as welfare, education and the role of the media

CULTURAL IDENTITY • by John Ridding

Pragmatic roots of patriotism

There has been a smooth transition in social institutions as a Chinese elite has slipped seamlessly into place

"Every time I come to Hong Kong it feels more Chinese," says Mr Eric Lin, a Taiwanese banker and the great great grandson of Commissioner Lin Tse-hsu, the 19th century official who banned opium imports and sparked the Sino-British war.

It is a view that is readily endorsed in the territory, even by those with less patriotic roots. For while Hong Kong may remain a British colony until the stroke of midnight on June 30, it has long been adapting to its Chinese future.

Taxi drivers pin five star red flags to their dashboards. Aspiring entrepreneurs spend their spare time honing their Mandarin. Those who have already climbed the business ladder favour the Shanghainese decor of the China Club, located at the top of the former Bank of China Building, to the formality of the Hong Kong Club, long a summit of the social hierarchy.

In the territory's social institutions there has been a smooth transition, as a Chinese elite has slipped seamlessly into place. The British generals who long headed the Jockey Club have bowed out, to be replaced by Mr Larry Wong, a Taiwanese American who was born within a furlong of the downtown Happy Valley race track.

The seat in the stewards committee traditionally held by Jardine Matheson is now filled by Mr Larry Yung, chairman of Citic Pacific, the mainland backed conglomerate, and the son of China's vice-president. With other Hong Kong institutions, the Jockey Club has dropped the Royal from its title.

Many changes are cosmetic. But there has also been a more solid rise in patriotism. "I think people are more comfortable identifying with China now," says one Cantonese investment banker. "China's ascent has prompted a degree of pride, and a lot of the dark events of communism seem distant now."

Part of the patriotism stems from pragmatism. Although political correctness has made only rare inroads into the business sector, it is seen as an advantage to flag loyalty towards the mainland. Contacts across the border are also an asset.

Such considerations have spawned a host of committees to celebrate the handover. The Association for the Celebration of Reunification of Hong Kong with China was launched last November with a list of the tycoons who had contributed – and the amounts – published in local newspapers. Mr Li Kashing was one of 10 tycoons to stump up more than HK$2m.

A more recent example was the Financial Community Committee for the Celebration of Reunification, launched in the glass tower of the Bank of China by Mr Tung Chee-hwa, the territory's future leader. Mr Tung has linked Hong Kong's interests with Chinese values, emphasising the importance of respect for education, respect for the elderly and other traditional traits. "We are Chinese, and we are proud to be Chinese," he says.

China has been more active in fuelling the flames of patriotism. From the giant clock in Tiananmen Square ticking down the seconds to the handover, to a barrage of propaganda tracts and programmes, Beijing's leadership has been capitalising on the historic event. An epic film on the opium wars, the most expensive ever made in China, will be released to coincide with the handover. And there are no prizes for guessing who the bad guys are.

In many official commentaries, Britain's contribution to the territory's success has been deliberately downplayed. Beijing's newspaper Guangming Ribao for example, claimed the existence of a bustling Chinese community before Britain acquired the "barren island" once famously dismissed by Lord Palmerston.

The newspaper cited the early presence of pearl and salt industries, and explained the rise of Hong Kong as a product of Chinese diligence and ingenuity rather than the institutions bequeathed by its colonial rulers.

Such interpretations are clearly debatable. A more pressing question is whether the patriotic ideals they reflect involve the risks of an anti-colonial backlash.

This is not just a problem for Britain. Last year's protests against Tokyo's claims to the Senkaku or Diaoyu islands in the East China Sea revealed the presence of anti-Japanese sentiment just below the surface of Hong Kong society.

But in spite of such incidents, few see the need to sound the alarm bells. Ms Emily Lau, an independent legislator, points out the distinction between identifying with China and with the regime in power.

Mr Vincent Cheng, executive director at Hongkong Bank, says that there is little resentment towards Britain and a general respect for the institutions it has built in the territory. Besides, he says, the Hong Kong people are as cosmopolitan as they are pragmatic.

"If a Japanese television is better value, or if you get a 25 basis points reduction on a loan from a foreign bank, then that is the most important thing."

■ VIEWPOINT

Ravi Gidumal runs a trading business and, as a leading member of Indian Resources, lobbied the UK to award British passports to ethnic minorities – a five-year endeavour which finally bore fruit earlier this year.

"For the community of people whom we have fought for this provides a lot of security – the security to remain here.

"I'm convinced out of personal experience that had this provision not been made quite a number of people would have had to leave Hong Kong to secure citizenship elsewhere. If you are stateless your only support is economic. I'm confident about the economic future of HK. If I was not confident, given my financial standing, I could have packed my bags and left and probably picked any country in the world.

"I choose to stay here because of the good economic future."

WELFARE POLICY • by Peter Montagnon

Affluence brings social aspirations

Economists and politicians expect public spending to remain a priority under mainland rule

Hong Kong is not often thought of as a bastion of welfarism, but under the governorship of Mr Chris Patten, spending on welfare has risen remarkably, making this possibly one of his most enduring legacies.

According to Mr Donald Tsang, the financial secretary, real spending on welfare has risen by 88 per cent in the past five years. The budget for the current year provides for a further real increase of 9.1 per cent to HK$21.2bn in spending on items such as care for the elderly and the disabled. Spending on health is scheduled to rise by 5.7 per cent in real terms to HK$28bn.

Such figures once prompted a scathing China to brand Mr Patten a Euro-socialist. Beijing was worried that welfare spending would accustom the local population to soft western ways and compromise Hong Kong's record for fiscal stability.

So will welfare continue to be a priority under mainland rule? Probably yes, say economists and politicians – not least because Mr Patten's effort in this area has struck a chord with the local population.

"If there's a new sentiment among the local community, pressing for more care, I wouldn't ascribe that entirely to Mr Patten," says Mr Tsang Yok-sing, the pro-Beijing politician. Rising overall affluence has made people more aware of the gap between rich and poor, he adds. "With or without Mr Patten's advocacy for a caring society, we have to address this problem, especially now that the legislature is elected."

Welfarism may not come so naturally to Mr Tung Chee-hwa, chief executive designate, but he knows that he needs to make the government popular, says Mr Tsang. That is why he has selected three main policy areas for priority: housing, care for the elderly and education. "I believe the government is going to pour money into these areas."

Mr Tsang's assessment suggests that the Hong Kong public does not view welfarism as a decadent western import, but something that should come naturally to a more affluent society seeking to improve the quality of life.

Hong Kong's experience is typical of the region. According to last month's Emerging Asia report from the Asian Development Bank, responding to rising demand for welfare will become one of the central challenges for Asian governments in coming decades, as they seek to preserve high growth rates and satisfy pressure from a newly emerged middle class for a more civilised society.

The report says governments must try to respond to these demands for the sake of social cohesion, but also manage to avoid what it called "a fiscal blow-out". That means keeping overall spending under control and involving the private sector as much as possible.

Seen from this perspective, Hong Kong is in the vanguard of Asian administrations trying to move on to the next stage of development. With a per capita income of almost US$25,000, Hong Kong's standard of living is well into the OECD league, even if its wealth is still unevenly dispersed by the standards of most industrial countries. Now it must consolidate and build on that developed status.

Judging by its record so far, it is succeeding. The government has been prudent in increasing spending on community projects, says Mr Patten. "We've never failed to cut taxes in a budget while I have been here. We've increased our reserves. I will leave public spending lower as a proportion of GDP than it was when I arrived."

That combination of fiscal prudence and social conscience is likely to continue after he is gone, but public support for caring programmes does not extend to large transfer payments. While not financially supported by government, the mandatory pension scheme proposed by Mr Patten has proved unpopular with pro-Beijing businessmen, who see it as unnecessary when Hong Kong already has a high savings rate.

By contrast care for the elderly responds to a deeply embedded Chinese tradition of respect for the aged. Investment in education would increase Hong Kong's skills and support for housing which held down the high cost of accommodation would help maintain Hong Kong's competitiveness as a base for investment. Both would thus find support from business as well from the broader public. That may see business playing a stronger role than ever in the formulation of policy.

EDUCATION • by Louise Lucas

Fresh lessons to be learned

Issues which need to be addressed include language, computers and understanding China

For Mr David Tang, socialite and businessman, the English language will go down in Hong Kong's history as Britain's greatest and most enduring legacy to its former colony.

But just as the British crown emblem has been removed from post boxes and the Queen's head from coins and stamps, so the standard of English has been gradually crumbling. Teachers and employers cite declining language standards – in Chinese as well as English – as one of the biggest dangers threatening the territory's next phase of economic development.

This is not lost on Mr Tung Chee-hwa, chief executive designate and himself a graduate of Britain's Liverpool University. Earlier this year he appointed Mr Anthony Leung, a banker and member of Mr Tung's inner advisory cabinet, to review the territory's education system.

Mr Leung, between his duties as managing director with Chase Manhattan Bank in Hong Kong, has conducted more than 100 meetings with education bodies and unearthed a wealth of issues that need to be addressed. These range from language skills to using computers in classrooms, and from promoting an outward looking mentality to a deeper understanding of China.

There are other issues. The influx of children from China is already starting to put strains on the territory's schools, resulting in bigger classes and language problems for the newcomers.

Politics is also coming home to roost in schools as in other spheres of life. There is a strong feeling that as part of China, Hong Kong should broaden its teaching of the mainland's history, geography and culture. Inevitably, this will mean touching on sensitive subjects and entail some rewriting of history – or the undoing of previous rewriting. The opium wars at the genesis of Hong Kong's colonial history provides one example of what Mr Leung says will have to be taught with more of a "Chinese perspective".

Mr Yeung Yiu-chung, principal of the Heung To Middle School, says: "In the past the opium wars were interpreted not according to the facts. For example, when I was in secondary school I was taught the opium war happened as a result of conflicts of east and west culture, and also a conflict of commercial interests.

"Actually, it is not only about this. It is also about the British smuggling and burning of opium, so I think we should teach the students what happened in the past, to tell them the facts."

Mr Yeung may be the head of one of Hong Kong's five patriotic, or pro-China, schools but his more comprehensive version is the same as that of a number of reputed historians, including Jonathan D. Spence.

Politics in the classroom, however, means more than rectifying misdrafts of history. Mr Leung is adamant that the pillars of Hong Kong's success – including the rule of law, a corruption-free environment, level playing fields and a free flow of information – be reinforced.

He agrees that it is a tall order, but says Hong Kong is used to meeting big demands. He invokes Chinese values, and portrays an educational Utopia in which parents and the community help shoulder the educational burden, and the sometimes dubious values portrayed on television do not darken hearths and homes.

Mr Leung faces bigger battles than mothers more interested in the mah jong table than Junior's maths homework. Ms Christine Loh, an independent legislator, has vowed to resubmit a private member's bill unwinding the government's powers to control "biased" political expression in schools.

Ms Loh's bill was defeated at the tail-end of the last sitting of the legislative council, but she proposes to fight on, arguing that the provision gives the government carte blanche to define political bias. "In practice it could censor anything with political content, such as a school newspaper or student drama," she says.

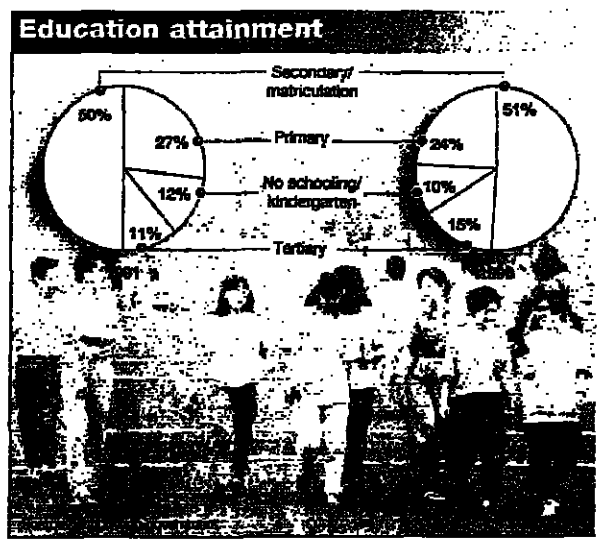
Mr Leung must also deal with the question of resources. He is keen to keep free schooling – which Britain introduced in 1971 – but is also eager for Hong Kong schoolchildren to benefit from the information age, which adds to the cost.

And he has to appease the employers, who say that their rapidly changing needs are not being met by the labour force. Part of the problem is the Asian emphasis on learning by rote, which spurs Hong Kong to the top of educational league tables but creates graduates low on creative thinking and initiative.

The new government realises that it cannot change the world in a term. Mr Leung, quoting a Chinese proverb to the effect that it takes 10 years to see a tree grow, and 100 years to see people grow, says a start has to be made somewhere.

It will take rather less time to see if Hong Kong's multi-faceted push on its education system is a case of too much, too soon.

Education attainment



Educational Resources

September 1996	Number	Student-teacher ratio
Kindergartens	734 (23)*	14.3:1**
Primary schools	856 (33)*	24.1:1**
Secondary schools	460 (22)*	20.5:1**
Special schools	67	5.4:1
Technical institutes	7	17.2:1
Technical colleges	2	15.1:1
University Grants Committee funded institutions	8	12:1

*Figures in brackets are the number of international schools **at September 1995

Source: Hong Kong Government

MEDIA • by John Ridding

Danger lies within

Self-censorship, rather than overt pressure from over the border may be what limits press freedom

The scores of newspapers and magazines piled high on Hong Kong news stands provide a daily reminder of the territory's bustling media sector – traditionally one of the most vibrant in the region.

But as the transfer of sovereignty has drawn near, the industry has faced a growing burden. Many local journalists and politicians worry that China's heavy hand will curb the media and that Beijing fails to understand the role of a free press in Hong Kong society.

"Beijing is very intolerant of dissenting views and the Chinese press follows different rules," says Mrs Emily Lau, an independent legislator. In her eyes, there is much more than a morning read at stake. "If Hong Kong should lose press freedom we are finished," she says, referring to the role of the media in defending the territory's autonomy and political freedoms.

Media curbs could also prompt a shift in investments. Singapore has sought to lure regional broadcasters, and so far counts MTV and ABN among its TV operators. "Frankly, Hong Kong has always been streets ahead for media companies, in terms of editorial considerations," says one broadcast executive. "But there is bound to be a question mark after the handover."

For many in the sector, there is already ample cause for concern. A survey conducted last month by the Chinese University of Hong Kong found that more than half of the journalists it polled believed self-censorship was already being practised. A mere 7 per cent said press freedoms would be unaffected by the transfer of sovereignty.

Speaking earlier this year, Mr Richard Boucher, the US Consul General cited press freedom as an area of concern in the transition. "In reality, freedom of the press has already been limited by the self-censorship practised by some journalists, especially when reporting on China," said Mr Boucher. "Senior PRC officials have said that Hong Kong papers could not print personal criticisms of Chinese leaders after the handover."

Self-censorship may be difficult to measure. But it is easy to explain. Newspaper executives are fearful that a critical line towards China will encourage advertisers to shift to more compliant publications. With fierce competition, and the lingering memory of a vicious price war in 1995-96, few executives want to risk the bottom line.

The case of Mr Jimmy Lai's Next Media suggests the issue could go deeper still. Having once condemned China's premier as "a turtle's egg" a strong insult on the mainland, Mr Lai has found his retailing interests across the border running into problems.

When he tried to find an investment bank to sponsor the flotation of his Next Media group, he found no takers. Sun Hung Kai Securities, who pulled out of the deal, said it was a commercial decision. But it was laden with political overtones and Next has been starved of expansion funds.

Part of the problem, says Mr Martin Lee, leader of the Democratic Party, is that many newspaper proprietors have substantial investments on the mainland. Mr Robert Kuok, chairman of the South China Morning Post, the dominant English-language daily, has property projects and hotels in China. Sing Tao Holdings, publisher of several titles, has manufacturing interests across the border.

More significantly, most Hong Kong media companies are eyeing the mainland market for future expansion. Not all believe business interests and political pressures will undermine press freedoms in Hong Kong. Mr Tung Chee-hwa, the territory's future leader, insists that freedo[m] will be maintained. "It [is] part of our society, part [of] our culture," he says.

Within the industry, [Ms] Sally Aw, chairman of Si[ng] Tao Holdings says that pre[ss] freedoms will be respecte[d] so long as newspapers a[re] responsible in any criticis[m] of mainland affairs or o[ffi]cials. "I have never receiv[ed] pressure concerning wh[at] we print."

Mr Tsang Tak-sing, edit[or] of the pro-Beijing Ta Ku[ng] Pao, cites article 27 of t[he] Basic Law, the constituti[on] for post-handover Ho[ng] Kong which states that "r[es]idents shall have freedom [of] speech, of the press and [of] publication". "This is t[he] first time ever that freed[om] of the press is written i[n] the law in Hong Kong," [he] says. "In the past we o[nce] had draconian laws curbi[ng] freedom of the press."

Nor does Mr Tsang belie[ve] that such promises will [be] by the board. "I don't thi[nk] Ms Elsie Leung will pr[ess] charges against a newspa[per] just for being critical of t[he] Chinese government," [he] says, referring to the sec[re]tary for justice in the po[st-]handover administration.

A senior editor at o[ne] local newspaper agrees th[at] the risk of overt pressure [is] overstated.

"The real problem is n[ot] the law suit or the ord[er] from across the border," [he] says. "The real threat com[es] from within."

More than a morning read at stake: many worry China's heavy hand will curb the media and that Beijing fails to understand the role of a free press in Hong Kong society Sarah Murray

■ VIEWPOINT

Ms Sally Aw, chairman of Sing Tao Holdings and one of the few women among the top ranks of Hong Kong business, runs the media and property empire inherited from her father, Aw Boon-haw, the – "Tiger Balm King". A pioneer in developing international newspapers through satellite feeds, the daily Sing Tao now has editions from New Zealand to San Francisco.

She is planning to sell her controlling stake in Sing Tao, but not because of fears about press freedom after 1997.

"I don't think it will be impossible to criticise Chinese leaders, if you do it in the right way. China is changing very fast, although it will take time for them to remove fears that Hong Kong will be a base of subversion."

But the Sing Tao chief does see room for improvement in Hong Kong's media. "Journalists in Hong Kong have to be more responsible." And like many business leaders she plays down local interest in politics.

"Hong Kong is not a political place, it is more economically conscious. For all these years the British never gave Hong Kong a democratic conscience. Why should they do it in the last few years?"

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■ HONG KONG

The treaties and accords underpinning Hong Kong's return to China emphasise continuity – Hong Kong will be granted a high degree of autonomy and retain its capitalist system for 50 years. The management of financial reserves, separate currency, existing borders, and free port status are among the other constants. So what will change?

■ Hong Kong's name

From July 1, the territory will be known as the Hong Kong Special Administrative Region of China – or Hong Kong SAR for short.

■ Head of government

Replacing the British governor, Hong Kong's top politician will be known as the Chief Executive. Mr Tung Chee-hwa, the former shipping tycoon, will be the first.

■ Government House

Mr Tung will not live at Government House, as have his British predecessors. Instead he will remain in his apartment. The colonial building will have an alternative use, possibly as a guest house for VIP visitors or a museum.

■ Judiciary

The Court of Final Appeal will no longer be the Judicial Committee of the Privy Council in London, but a new court of final appeal in Hong Kong.

■ Armed Forces

The British forces will be replaced by the People's Liberation Army of China. Several thousand PLA troops are set to be stationed in the territory, mostly in the same barracks as those occupied by the British armed forces.

■ Visa requirements

Travel arrangements to Hong Kong will remain unchanged for most countries. British citizens, however, will now be treated the same as other foreigners. That means a six-month visa-free period for tourists, rather than 12 months, and a work permit if they are coming to live and work.

■ Flags and emblems

Hong Kong will get a new flag and emblem to replace the colonial insignia.

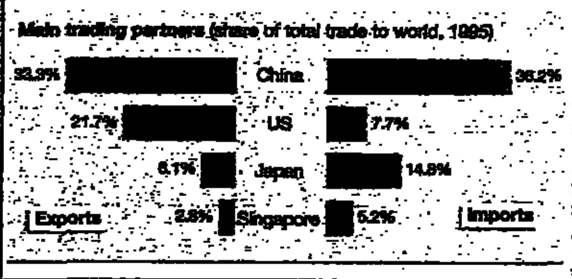
- ■ Area: 1,075 sq km
- ■ Population: 6.3 million [illegible]
- ■ Population breakdown:
  - Hong Kong Island [illegible] million
  - New Territories 2.8 million
  - Kowloon 2.0 million
- ■ Languages: English and Chinese (mainly Cantonese)
- ■ Currency: Hong Kong dollar (HK$)
  - Exchange rate:
  - 1996 average US$1 = HK$7.740
  - June 11 1997 US$1 = HK$7.7413

View from the Peak — Picture: Sarah Massey

Economic summary

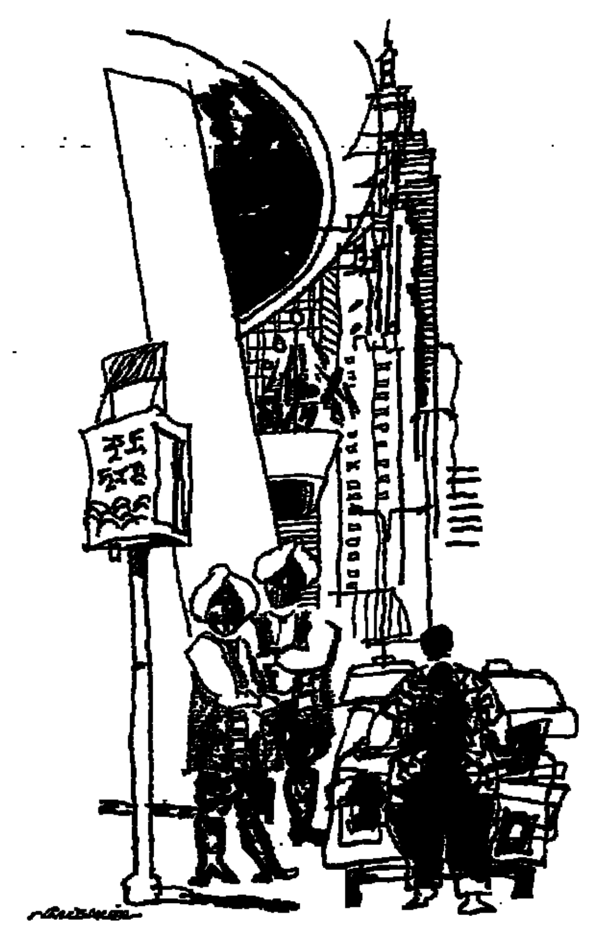
	1996 Estimate	1997 Forecast
Total GDP (US$bn)	158.4	177.1
Real GDP growth (annual % change)	4.3	4.7
GDP per head (US$ '000)	25.1	27.7
Inflation (annual % change in CPI)	6.3	7.0
Average hourly earnings (annual % change)	26.8	25.3
Industrial production (annual % change)	3.1	2.0
Foreign exchange reserves (US$bn)	65.0	62.0
Money supply, M2 (annual % change)	11.5	11.0
Short-term interest rates (%)	8.5	9.0
Total foreign debt (US$bn)	20.2	21.9
Debt service ratio (%)	1.1	1.0
Current account balance (US$bn)	0.9	0.6
Merchandise exports (US$bn)	180.6	197.8
Merchandise imports (US$bn)	-198.4	-217.3
Trade balance (US$bn)	-17.8	-19.5

Main trading partners (share of total trade to world, 1995)



Source: EIU

Guide for the visitor



- **Climate:** Subtropical and monsoonal. Hot and humid from May to mid-September with a risk of typhoons. July and August are very hot. September to December is sunny, but drier, and is the most pleasant time of year. Winter (Dec-Feb) is dry but can get cold, with an average temperature of 15°C, and humidity often above 83 per cent. March and April are moderately warm and damp.
- **Entry requirements:** Passport: Valid passport required by all. Visa: Nationals of most countries do not require visas for short visits.
- **Health:** Vaccination certificates are not mandatory, but requirements may vary depending on whether the visitor has arrived from an infected area. Hepatitis B is prevalent in Hong Kong. Reported cases of Aids are relatively few. Foreigners can be admitted free to any government hospital. Tap water is safe to drink.
- **Currency:** There are no restrictions on the amount of foreign currency which a traveller may take into Hong Kong. Currency is easily changed, either at banks, hotels or money changers.
- **Customs:** Personal effects are allowed duty-free.
- **Departure Tax:** HK$100.
- **International airports:** Hong Kong International, Kai Tak (HKG), 7.5km from Hong Kong in Kowloon. Chek Lap Kok International, just off the coast of Lantau Island, is scheduled to open in April 1998, linked to Kowloon by MTR (metro) services and highway.
- **Surface access:** The Kowloon-Canton Railway Corporation (KCR) is the main carrier of passengers to and from China, with express trains serving Kowloon-Guangzhou and Kowloon-Lowu (35.5 km). Bus services link Guangzhou to the Hong Kong border. Hovercraft services operate four times a day to/from Guangzhou and several times daily to/from Zhuhai. There are frequent daily services to and from Macao by hovercraft (journey time 75 minutes), jetcats (journey time 75 minutes), high speed ferry (journey time 90 minutes) and jetfoil (journey time 60 minutes).
- **Hotels:** Seek seasonal hotel bargains. Confirmed hotel rooms and onward flight reservations should be booked well in advance. A 10 per cent service charge and 5 per cent tax is added to hotel bills.
- **Car hire:** A valid driving licence issued in the country of origin may be used for up to 12 months. Chauffeur-driven and self-drive car hire is available.
- **Taxis:** Hong Kong taxis are reasonably priced. It is advisable to have destination written in Chinese. Tips are discretionary.
- **Buses:** From Kai Tak International Airport, buses are about 20 per cent cheaper than taxis and serve five routes every 12-15 minutes.
- **Metro:** The Mass Transit Railway (MTR) operates from 0600-0100, with 38 stations over a 43km route.
- **Trams:** A flat fare system operates on Hong Kong Island's five-line tram system. The trams are crowded at rush hour, but afford good views of Hong Kong.
- **Other:** The Star Ferry is a cheap and essential mode of transport for commuters. There are three ferries: Tsimshatsui (the lower tip of Kowloon) to Central (Edinburgh Place), every five to 10 minutes from 0630-2230; Tsimshatsui to Wanchai, every 10 to 20 minutes from 0730-2050; Hunghom to Central (Edinburgh Place), every 12 to 20 minutes (every 20 minutes on Sundays and holidays) from 0700-1920.
- **National transport:** Bus services are inexpensive and convenient. There are two main private bus companies, China Motor Bus (CMB) and Kowloon Motor Bus (KMB), and private minibus services. The New Territories can be reached by the Kowloon Canton Railway (KCR). The outlying islands can be reached by ferry from Central Ferry Piers. There are extensive hovercraft, hydrofoil and coastal services.
- **Working hours:** Business: (Mon-Fri) 0900-1700 (Sat) 0900-1300. Government: (Mon-Fri) 0900-1300, 1400-1700 (Sat) 0900-1230. Banking: (Mon-Fri) 0900-1630 (Sat) 0900-1230. Shops: Central District 1000-1900; Causeway Bay and Wanchai 1000-2130; Tsimshatsui East 1000-1930; Tsimshatsui, Yaumatei and Mong Kok 1000-2100. Most department stores and shops open Sundays. Some Japanese stores close one day/week, and street markets operate all day and into the night.

PROPAGANDA • by James Harding

Patriotism and politics lie behind the party talk

For China, Hong Kong's return is a chance to create a binding force in a country rapidly abandoning the tenets of communism

> **"One hundred years ago, I helplessly watched you leave me.**
> **For one hundred years, I have been waiting for you to come back.**
> **The time did not wipe away my longing.**
> **Oh, my 1997, I have been calling for you time and again.**
> **There have been long black nights and painful days apart.**
> **I hugged you in my dreams and in my heart we never were apart.**
> **Now let's share an eternity of true love and sunshine.**
> **Oh, my 1997, I call you with deep love."**
>
> *1997, I approach you, lyrics by Jin Shuzeng*
> *Hong Kong handover hit*

For more than 100 years, the British have ruled Hong Kong and, as if to give a sense of how much their compatriots have endured, China Central Television plans to offer the mainland Chinese audience a 72-hour live broadcast of the territory's return to the motherland.

Given the purple prose in daily newspapers, the Hong Kong handover compilation albums in the shops, the ubiquitous countdown clocks and the Hong Kong return education packs distributed in schools and factories across China, the marathon CCTV telecast shows relative restraint.

China's Communist Party not only regards the return of Hong Kong to Chinese sovereignty as a good thing in itself. It also is a chance to promote patriotism, a binding force in a country that has been rapidly abandoning the tenets of communism and needs an overarching ideology to hold competing regions and ethnic groups together.

Fifty days before the handover, the People's Daily, the mouthpiece of the Communist Party, devoted its front page to an old speech by President Jiang Zemin: "On strengthening patriotism."

Press reports rarely fail to mention how July 1 reinforces the "Chinese people's determination to unite around the Central Committee of the Communist Party of China, with Jiang Zemin at the centre".

The propaganda machine has been squeezing the political capital out of the Hong Kong story across China. In Tibet, which was independent before 1949 and then "liberated" by China's Communists, the vice-president of the Party School has drawn parallels between the remote region and Hong Kong. "The British imperialists not only occupied Hong Kong, but they have also invaded Tibet twice. These are humiliations for the Chinese nation. The return of Hong Kong is not only a new era for Hong Kong, but also an important step towards realising the great cause of unity. It is a happy event for all Chinese people, including Tibetans," he said last month.

National television punctuates the evening programmes with infomercials, sweeping through 156 years of British rule in a couple of minutes: China's humiliating defeat in the Opium Wars, contrasting images of highlife and poverty in 1930s Hong Kong, lingering footage of Deng Xiaoping and Margaret Thatcher in 1984 and finally doves bursting forth across the spire of the Bank of China and fluttering away across Hong Kong's sparkling skyline. Rousing music reinforces the point.

Countdowns have become an inescapable feature of life. As well as the digital clocks in public places and on municipal buildings, newspapers run "countdown to history" boxes on their front pages and schools quietly compete about the size of their countdown calendars.

News programmes all open with the countdown latest. Even the death of Deng was not enough to break the formula: "Good morning. Comrade Deng Xiaoping has passed away. It is 130 days until Hong Kong returns to the Motherland."

There is a real, and understandable, sense of pride among many people that what is an integral part of China's territory, inhabited by Han Chinese people, will shrug off colonial rule – a symbolic coming of age for modern China.

The propaganda effort is intended not only to reinforce the point, but to restrain over-eager editors and passionate patriots from slipping into jingoistic excess. Although many different media organisations have sought to play a role in handover coverage, Beijing has ruled that only material from Xinhua – the official news agency – can be used.

Popular celebrations have also been carefully orchestrated. In Shanghai for example, 97 "little painters" from local primary schools last month made a 97 metre-long painting along the Bund, Shanghai's colonial waterfront, to celebrate the historic year.

There will be six new traditional Chinese operas opening this month all around the Hong Kong handover theme.

The government recently organised a 10,000 person sing-along in Beijing to celebrate Hong Kong's imminent return. The June 30 celebrations will be accompanied by a mammoth karaoke concert, giving a global stage to handover hits.

Songs like "1997, I approach you", as well as "Finally comes the day we have long expected", and "The story in Spring", a paean to the late leader Deng Xiaoping, have already become standard fare on Chinese TV and radio. But the most dew-eyed coverage is yet to come.

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